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L&S GSTtrack

an e-update on GST from
Lakshmikumaran & **Sridharan**

october 2015

Business Processes for GST: Payment Process

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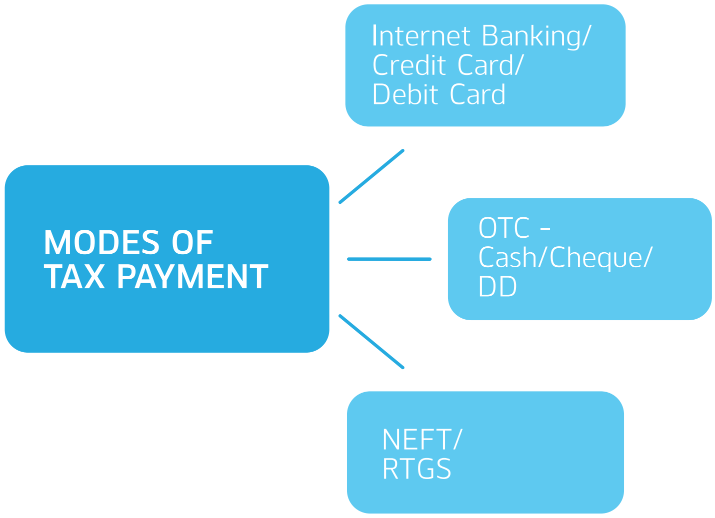
The report of the Joint Committee on Business Processes for GST on GST Payment Process (hereinafter **'the report'**) was published in the public domain for comments from stakeholders. The report gives a broad outline *inter alia* of the processes to be followed and responsibility to be affixed on the various stakeholders in the Payment Process. The report primarily discusses three modes of payment of taxes, banking arrangements under GST, the proposed accounting system, reconciliation of receipts, resolution of discrepancies, challan correction mechanism, payment under enforcement and anti-evasion effort and the challan format.

This update will give its readers a broad overview of the proposed GST payment mechanism.

GST Payment – Overview

The CGST, SGST, IGST and 1% Additional Tax will be paid by one Challan. 1% Additional Tax will be collected by the Central government and assigned to States. The GST payment can be made on generation of Common Portal Identification Number (CPIN). The report has proposed three methods for GST payment. The payment process has been simplified with only one challan required per registration for payment of Central as well as State levies. Every Taxpayer has to take a separate registration for each state (GSTIN).



Proposed Accounting System under GST

- The accounting system mainly consists of four major heads i.e. CGST, IGST, Additional Tax and SGST.
- There would be separate SGST accounts for each State and UT.
- The major heads would have sub-heads for Interest, Penalty, Fees and Others.
- No classification of supply has been proposed at the time of making payment between goods and services.

EXPERT SPEAK

Absence of classification requirement in the Tax payment challan is a step towards simplification. A similar step was taken during the introduction of the Negative List regime of Service Tax in 2012. However this mechanism was withdrawn since the revenue department could not track the performance of different industries due to the unified code. The position would be clear once the return forms are put out for discussion.

Modes of Payment:

MODE 1
Payment through Internet Banking/ Credit Card (CC)/ Debit Card (DC)

- This mode can be used only with Authorized Banks.
- The Taxpayer shall login to his account on the GSTN Portal to create a challan. The challan can be saved for editing at a later stage.
- Final challan shall contain a CPIN and must be paid within 7 days of generation. The system will automatically purge unused challans after 7 days.
- Challan shall contain options to pay CGST, IGST, Additional Tax and SGST.
- SGST shall be specific to the state to which the GST Identification Number (GSTIN) belongs.
- Once payment is successful, the Taxpayer should check his tax ledger in a couple of days to check whether payment is credited.

To understand the flow of information involved in Mode 1 of Payments Process, a detailed flowchart is attached as **Annexure I**.

MODE 2
Over the Counter Payments

- This mode of payment can be used with Authorized banks only.
- The limit for such payment is Rs. 10,000 per challan.
- The taxpayer shall be barred from using this mode if the cheque bounces even once.
- The basic framework is similar to Mode 1 with a few modifications.
- The Taxpayer has to carry two copies of the challan or fill a pay-in-slip with Common Portal Identification Number (CPIN) details.
- Outstation cheques would not be accepted, except payable at par across all branches and such branch in the same city as the authorized bank.
- The Taxpayer should check his tax ledger in a few days to check whether payment is credited.

To understand the flow of information involved in Mode 2 of Payments Process, a detailed flowchart is attached as **Annexure II**.

MODE 3
NEFT/ RTGS Transfer

- This mode of payment can be used only for banks other than Authorized banks.
- The basic framework is similar to Mode 1 with a few modifications.
- The taxpayer shall be barred from using this mode if the CPIN lapses more than two times.
- The NEFT/ RTGS challans shall be auto populated with regard to the payee account and IFSC details. The payee shall be RBI.
- The Taxpayer must update the Unique Transaction Reference (UTR) on the GSTN Portal to enable matching of the receipts.
- If there is a mismatch, the Taxpayer's ledger would not be credited.
- The Taxpayer should check his tax ledger in a few days to check whether payment is credited.

To understand the flow of information involved in Mode 3 of Payments Process, a detailed flowchart is attached as **Annexure III**.

Reconciliation of Receipts

The report discusses the various checks and balances in-built in the Payments Process which would ensure that each leg of the transaction is vetted by at least two entities. The cross movement of electronic data facilitates such control checks and consolidated data warehouses enable electronic matching of the records to iron out any lapses which may arise in the matching of receipts due to data losses. The system should be built to trace the mismatches.

EXPERT SPEAK

Minimizing human intervention is the key to processing of voluminous data. The checks and balances built into the payments process appear capable of handling large traffic and would reduce the unproductive man hours wasted in reconciling accounts. However, the key success factor would be the efficient and effective implementation of the IT infrastructure and co-ordination between the Centre and the States GSTN Modules. Desired level of automation would not be possible unless all stakeholders are on the same platform. Compatibility of IT platforms for States opting to develop their own infrastructure should be ensured.

Challan Correction Mechanism

An error in GSTIN owing to wrong details entered by the authorized representative or someone on taxpayer's behalf would not be open to rectification. It is reasoned that multiple validations like User Id, passwords, etc. are used and thus the person entering the wrong details must be held accountable.

Enforcement and Recovery - Suo-motu registrations and Payment

There would not be any provision for payment across departmental counters. In the course of enforcement and anti-evasion investigations, if person is not already registered, the revenue officer would create a temporary GSTIN. He would collect cash/ cheque/ DD and issue a receipt against it. Thereafter he would pay it into the Government treasury by **Mode 2**.

Banking Arrangements under GST

The report also specifies the technical, infrastructural, systemic and procedural capabilities of the banks required for supporting the payments processes. Only those banks which are able to refine their IT systems to handle GST remittances in a seamless manner shall be accredited for GST payments process.

Other Salient Points of Discussion

The existing Electronic Pay and Accounts Offices (e-PAO) for Excise and Service Tax would be converted to e-PAO for IGST and CGST respectively. New e-PAOs for SGST and Additional Tax would be created.

The Tax Payer master shall be provided by the existing tax departments to the GSTN and any updates thereafter shall be reported to GSTN on a real time basis.

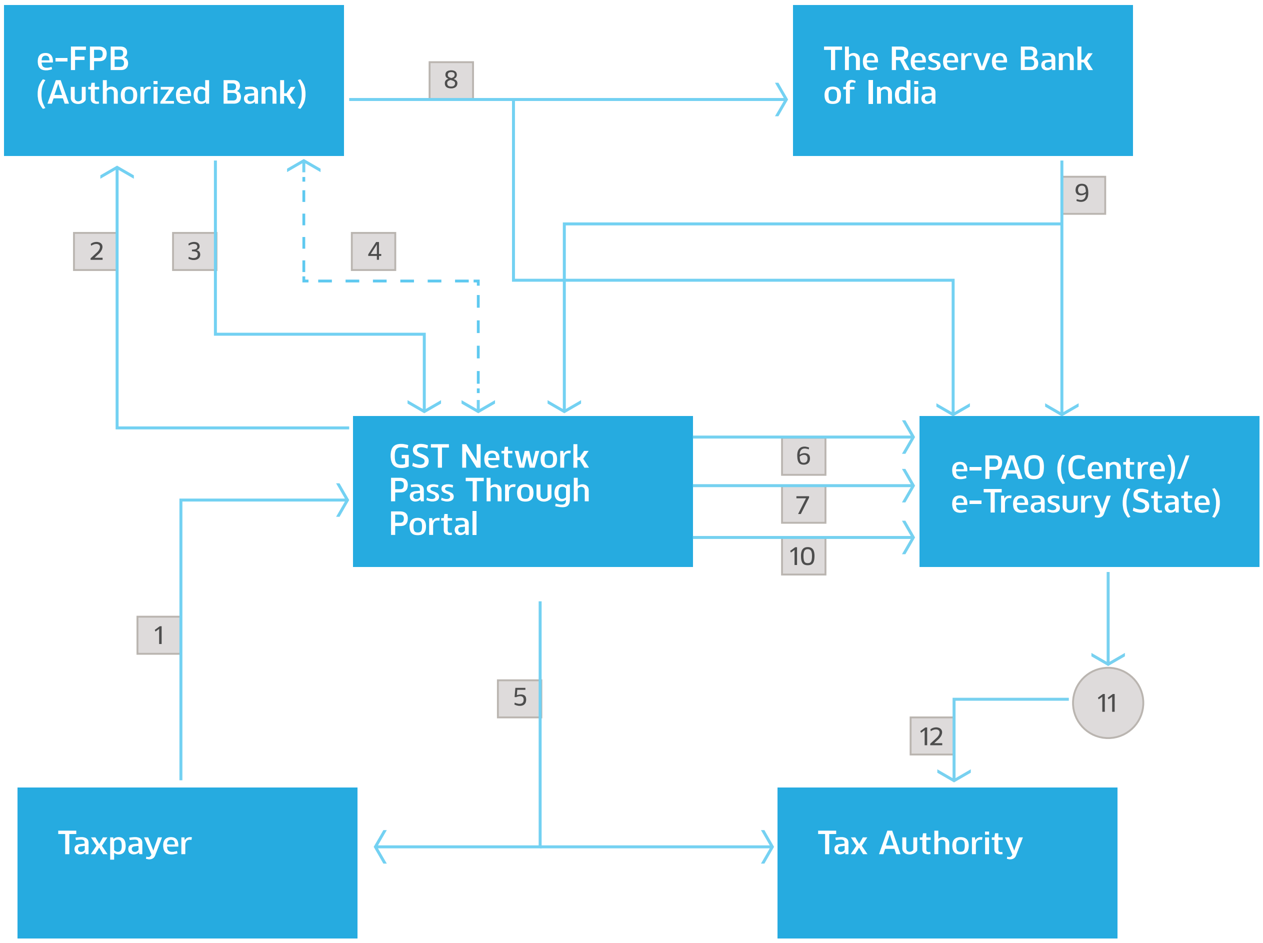
OUR COMMENTS

The integration of the payment process across the Centre and States is a positive move and shall work towards improving the ease of doing business in India. The real time matching of payments and reflection in the Taxpayer's ledger would contribute to better awareness and compliance. It is however important to look out for the mechanism for tax credit matching. A return-cum challan could be an option. The cumbersome process of matching invoice details at a later stage should be avoided and a mechanism in line with the payments process should be integrated. Timing differences in invoice based credit availment and actual receipt of payment in the Government Treasury should be allowed to form a bone of contention. Seamless credit is the sacrosanct of GST.

The report can be downloaded from: http://dor.gov.in/scgst.

Annexure I

Mode 1: Payment through Internet Banking/ Credit Card (CC)/ Debit Card (DC)
This mode can be used only with Authorized Banks. A process flowchart has been created to simplify the complex process of electronic data interchange between various stakeholders:



Sequence of activities

1. The Taxpayer shall create a challan by logging on to GSTN. Once the challan is finalised, a CPIN is generated. The CPIN is valid for 7 days after which it shall be automatically purged if still unpaid.

2. Taxpayer shall choose a mode of payment - Internet Banking/ CC/ DC. The GSTN shall route the Taxpayer to the website of the bank or the payment gateway. Simultaneously, an electronic string would be sent to the selected bank specifying the GSTIN, CPIN, Challan amount, breakup into CGST, IGST, Additional Tax and SGST and State/ Union Territories (UT) to which SGST pertains.

3. On successful payment, the Electronic Focal Point Branch (e-FPB) would create a unique Challan Identification Number (CIN). Real time data would be relayed to the GSTN through electronic string containing CIN, GSTIN, Branch Receipt Number (BRN), Challan amount, date and time of payment. From this point onwards, CIN would be used as the primary identifier.

4. In case of a lost connection, the GSTN would re-ping the e-FPB for confirmation of payment and subsequent relay of electronic string.

5. On receiving electronic string, the GSTN would credit the Taxpayer's tax ledger account and CIN would be locked. Simultaneously, payment details would be shared with the Tax Authorities. There would be 20 functional types of ledger accounts (Major heads - CGST, IGST, Additional Tax & SGST; Minor heads for each major head – Interest, Penalty, Fees & Others).

6. GSTN would send EOD report of CPINs generated during the day to Accounting Authorities to facilitate estimation of revenue and fund management.

7. On T+1 morning, GSTN would send report of all successful payments on T+0 value date.

8. On end of T+1 day, each e-FPB would send daily luggage files [39 files, one each for CGST, IGST, Additional tax and every State Government and UT (SGST)] simultaneously to RBI and Accounting Authorities.

9. RBI, basis the luggage files, using e-Kuber (Core Banking System) shall debit the authorized banks accounts held with it and credit the respective 39 accounts - CGST, IGST and Additional tax accounts of GOI and SGST accounts for each State and UT. RBI would create daily 39 e-scrolls for the accounts credited and send simultaneously to GSTN and Accounting Authority. Each transaction additionally would include inter-alia RBI transaction number and control totals.

10. GSTN would reconcile the e-scrolls with the e-FPB real time CIN data, append RBI transaction number to the CIN and send the same to Accounting Authority.

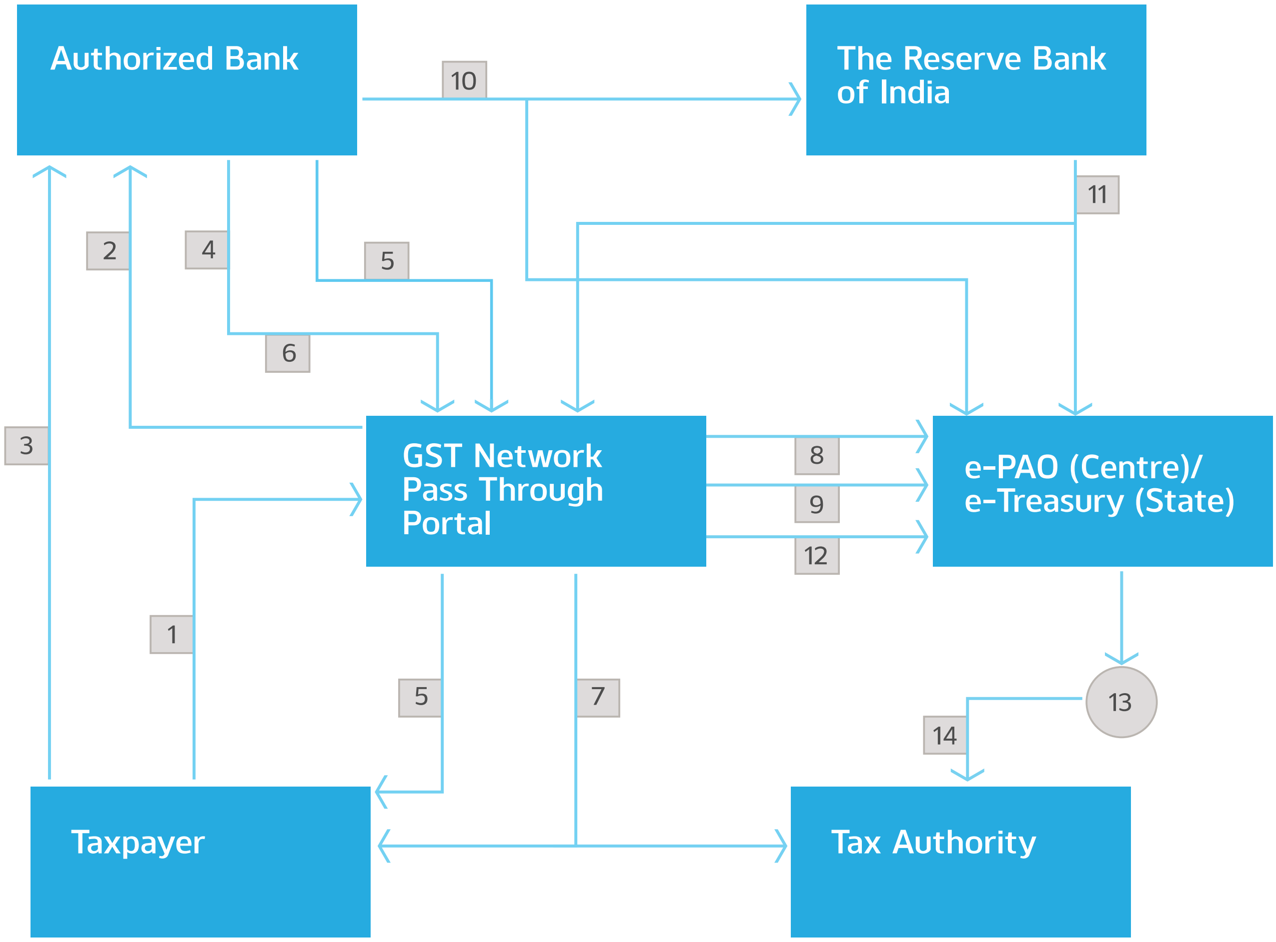
11. The Accounting Authority, on the basis of data received in step number 8,9 and 10, shall account for the receipts. A mapping mechanism would be put in place to track the revenue from formations using Taxpayer Master and CIN details.

12. The Accounting Authority shall on a periodic basis reconcile jurisdictional tax collections with Revenue authorities of the Centre and States.

Annexure II

Mode 2 : Over the Counter Payments

The basic framework is similar to the internet banking mode with a few modifications as illustrated below:



Sequence of activities

1. The Taxpayer shall create a challan by logging on to GSTN. Once the challan is finalised, a CPIN would be generated. The CPIN would be valid for 7 days after which it shall be automatically purged if still unpaid.

2. Taxpayer shall choose a mode of payment – OTC through Cash/ Cheque/ DD. The GSTN would send a real time electronic string to the selected bank specifying the GSTIN, CPIN, Challan amount, breakup into CGST, IGST, Additional Tax and SGST and State/ UT to which SGST pertains. The Core Banking Solution (CBS) of the Bank must be integrated with GSTN.

3. The Taxpayer would have to carry two copies of the challan or fill a pay-in-slip with CPIN details. The Bank shall draw data from the CBS records. In case of Cash or same bank Cheque, payment would be processed immediately and step 4 would be initiated. In case of other bank cheque (outstation cheque not accepted, except payable at par across a branch in the ame city), acknowledgment would be given subject to realization.

4. On successful payment, the e-FPB of the bank would create unique CIN. Real time data would be relayed to the GSTN through electronic string containing CIN, GSTIN, BRN, Challan amount, date and time of payment. From this point onwards, CIN would be used as the primary identifier.

5. In case of other bank cheque, the e-FPB of the bank would send CPIN, GSTIN, Challan amount and Bank's acknowledgment number to the GSTN on real time basis. This is First Level Intimation. Thereupon, the GSTN shall send an SMS to the Taxpayer.

6. Once the other bank cheque clears, the Bank shall send an electronic string to GSTN containing information as in step 5 with additional data of CIN, date of time of cheque realization and BRN/BTN.

7. On receiving electronic string either at step 4 or step 6, the GSTN would credit the Taxpayer's tax ledger account and CIN would be locked. Simultaneously, payment details would be shared with the Tax Authorities.

8. GSTN would send End of Day (EOD) report of CPINs generated during the day to Accounting Authorities to facilitate estimation of revenue and fund management.

9. On T+1 morning, GSTN would send report of all successful payments on T+0 value date.

10. On end of T+1 day, each e-FPB would send daily luggage files [39 files, one each for CGST, IGST, Additional tax and every State Government and UT (SGST)] simultaneously to RBI and Accounting Authorities.

11. RBI, basis the luggage files, using e-Kuber (Core Banking System) shall debit the authorized banks accounts held with it and credit the respective 39 accounts - CGST, IGST and Additional tax accounts of GOI and SGST accounts for each State and UT. The RBI would create daily 39 e-scrolls for the accounts credited and send simultaneously to GSTN and Accounting Authority. Each transaction would additionally include inter-alia RBI transaction number and control totals.

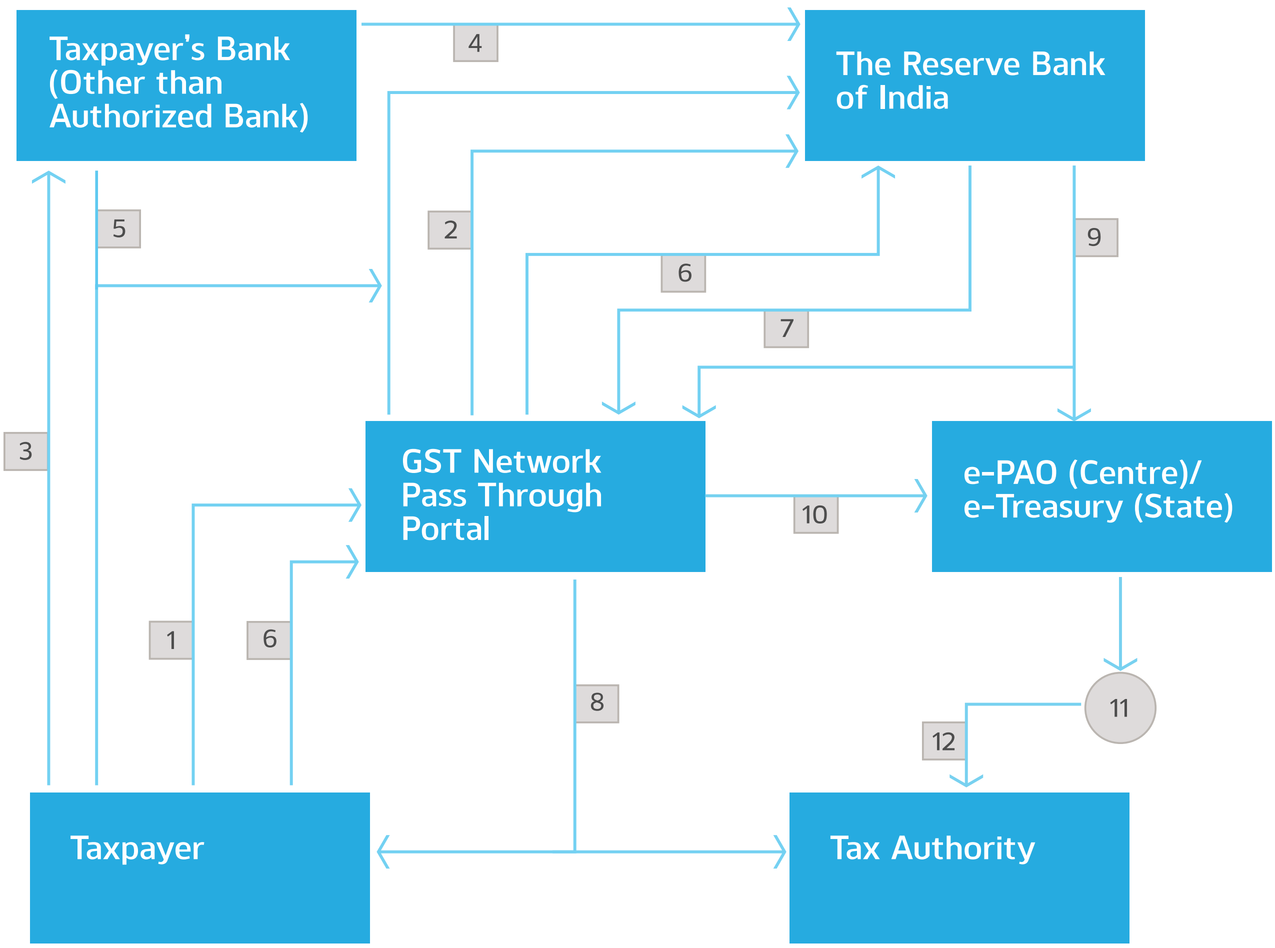
12. GSTN would reconcile the e-scrolls with the e-FPB real time CIN data, append RBI transaction number to the CIN and send the same to Accounting Authority.

13. The Accounting Authority, on the basis of data received in step number 10,11 and 12, shall account for the receipts. A mapping mechanism would be put in place to track the revenue from formations using Taxpayer Master and CIN details.

14. The Accounting Authority shall on a periodic basis reconcile jurisdictional tax collections with Revenue authorities of the Centre and States.

Annexure III

Mode 3 : RTGS/ NEFT Transfer
The basic framework is similar to the internet banking mode with a few modifications as illustrated below:



Sequence of activities

1. The Taxpayer shall create a challan by logging on to GSTN. Once the challan is finalised, a CPIN is generated. The CPIN is valid for 7 days after which it shall be automatically purged if still unpaid.
2. Taxpayer chooses a mode of payment – NEFT / RTGS. The GSTN would send a real time electronic string to the RBI specifying the GSTIN, CPIN, Challan amount, breakup into CGST, IGST, Additional Tax and SGST and State/ UT to which SGST pertains.
3. The Taxpayer shall take the prefilled NEFT/ RTGS challan to his bank. Only cheques can be used in this mode. RTGS must be made within 7 days.
4. The Taxpayer's bank shall process the payment to RBI. The RBI would park the funds in a GST pooling account.
5. The Taxpayer's bank shall simultaneously intimate the Unique Transaction Reference (UTR) to the Taxpayer, GSTN and RBI.

6. On receiving UTR, the Taxpayer shall update the records in GSTN portal. GSTN shall send the UTR to RBI on receipt.

7. RBI shall match the UTR and CPIN and on successful matching, the RBI creates unique Challan Identification Number (CIN). Real time data would be relayed to the GSTN through electronic string containing CIN, GSTIN, BRN, UTR, Challan amount, date and time of payment. From this point onwards, CIN would be used as the primary identifier.

8. On receiving electronic string, the GSTN would credit the Taxpayer's tax ledger account and CIN would be locked. Simultaneously, payment details would be shared with the Tax Authorities.

9. RBI shall carry out T+1 matching. Thereafter, using e-Kuber (Core Banking System) shall debit the GST pooling accounts and credit the respective 39 accounts - CGST, IGST and Additional tax accounts of GOI and SGST accounts for each State and UT. The RBI shall create daily 39 e-scrolls for the accounts credited and send simultaneously to GSTN and Accounting Authority.

10. GSTN would reconcile the e-scrolls with the UTR and CIN data and would send the same to Accounting Authority.

11. The Accounting Authority, on the basis of data received in step number 9 and 10, shall account for the receipts. A mapping mechanism would be put in place to track the revenue from formations using Taxpayer Master and CIN details.

12. The Accounting Authority shall on a periodic basis reconcile jurisdictional tax collections with Revenue authorities of the Centre and States.

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