



## Tax alert: Introduction of Invoice Management System (IMS) facility – Effective from 1 October 2024

**12 September 2024**

The Goods and Services Tax Network (GSTN) has issued an advisory to introduce a new functionality called Invoice Management System (IMS) on GST portal, from 1 October 2024 onwards. IMS is aimed at establishing a communication mechanism between suppliers and recipients by creating an additional layer of document verification and reconciliation. In 54<sup>th</sup> GST Council meeting, it is announced that, IMS facilitation is expected to reduce notices issued on account of ITC mismatch in returns.

### In a nutshell



#### Objective:

To reduce errors in claiming input tax credit, improve its reconciliation.

To enable taxpayers to efficiently address invoice corrections / amendments.



#### Mechanism:

The buyer needs to take appropriate action on the invoices saved by supplier.

Filing GSTR 3B is mandatory for generation of GSTR 2B for the subsequent months.



#### Implications:

While this may reduce the notices served on account of ITC mismatch, this shall add to the compliance activities.

Requires an adequate training as this new functionality has a direct impact on the working capital, given the pending acceptance of invoices.



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## GSTN Advisory on the Invoice Management System (IMS)

Effective 1 October 2024, the GST portal will introduce a new facility called the Invoice Management System (IMS). The objectives for introduction of the IMS are to reduce errors in claiming input tax credit, improve its reconciliation and to enable taxpayers to efficiently address invoice corrections / amendments with their suppliers, through the GST portal.

In its meeting held on 9 September 2024, the GST Council announced that the IMS will be an optional facility and is expected to reduce notices issued to taxpayers on account of input tax credit mismatch in the returns.

IMS will allow the recipient taxpayers to either accept, reject, or keep pending, the invoices (including debit and credit notes) received from their suppliers. Input tax credit of the invoices accepted by the recipients will flow into their GSTR 2B, whereas input tax credit of invoices rejected will not. For invoices marked as pending, the taxpayer will be able to claim the input tax credit once an appropriate treatment (accept or reject) is determined in the subsequent months.

The data flow of IMS would work as follows:

1. All the outward supply transactions reported by the supplier in their GSTR 1, GSTR 1A or Invoice Furnishing Facility (IFF) will populate in the IMS of the recipient once the supplier saves such transactions in their GSTR 1, GSTR 1A or IFF.
2. On the 14<sup>th</sup> of every month, a draft GSTR 2B will be made available to the recipient, based on:
  - a. The transactions flowing from GSTR 1, GSTR 1A or IFF of the previous tax period filed by the supplier and
  - b. On actions already taken by the recipient on such transactions from the date of their saving till generation of such draft GSTR 2B.

This means that while the recipient can take action on the transactions from the time, they are populated in IMS based on the transactions saved by the supplier, the recipient's GSTR 2B will be populated only with those transactions where the supplier has filed GSTR 1, GSTR 1A or IFF.

3. The recipient can take one of the following actions on the transactions in the IMS till the filing of GSTR 3B by them:

Action by the recipient in IMS	Treatment in recipient's GSTR 2B	Treatment in recipient's GSTR 3B
Accept	Flow to the 'ITC Available' section of GSTR 2B	Auto-populate in GSTR 3B as eligible input tax credit
Reject	Flow to the 'ITC Rejected' section of GSTR 2B	Will not auto-populate in GSTR 3B
Pending	<ul style="list-style-type: none"><li>• Carried forward in IMS and not considered for preparation of GSTR 2B.</li><li>• Need to be eventually either accepted or rejected within the timeline prescribed as per Section 16(4) of the Central GST Act.</li></ul>	Will not auto-populate in GSTR 3B
No actions	Deemed accepted	Auto-populate in GSTR 3B as eligible input tax credit

4. In the following situations, the recipients will not be able to select 'Pending' action i.e. the transactions will be required to be either accepted or rejected:
  - a. Original credit note

- b. Upward amendment of the credit note, notwithstanding the action taken by recipient on the original credit note
- c. Downward amendment of the credit note if original credit note was rejected by the recipient
- d. Downward amendment of invoice / debit note, where original invoice/ debit note was accepted by recipient and respective GSTR 3B has been filed

In the above situations, if the recipient rejects the transaction in IMS, the supplier's liability will increase in their GSTR 3B of the subsequent tax period.

- 5. Based on each of the above actions by the recipient, their GSTR 2B will be updated and this can be done till they file their GSTR 3B. The amount of input tax credit in GSTR 3B will flow from the finalized GSTR 2B.
- 6. After filing of GSTR 3B, all the accepted, deemed accepted and rejected transactions will move out of IMS dashboard.
- 7. The supplier will be able to see the treatment given by the recipient in their IMS.
- 8. If the taxpayer has not filed GSTR 3B for a month, their GSTR 2B for the subsequent month will not be generated.

### **Specific situations**

GSTN has described the treatment of certain specific transactions in IMS, as follows:

- 1. If the supplier amends the details of an invoice saved in GSTR 1 before its filing, the amended invoice will replace the original invoice in IMS, notwithstanding the action taken by the recipient on the original invoice.
- 2. If the supplier amends any invoice reported in GSTR 1 through GSTR 1A, the amended invoice will flow to IMS, but the corresponding input tax credit will flow in the recipient's GSTR 2B for the subsequent month.
- 3. The following transactions will not go to IMS and will be directly populated in the GSTR 3B of the recipient:
  - a. Inward reverse charge mechanism supplies where the supplier has reported in the Table 4B of Invoice Furnishing Facility (IFF), GSTR 1 or GSTR 1A and
  - b. Supplies where the recipient is not eligible to claim input tax credit due to restrictions either in Section 16(4) of the Central GST Act or in Place of Supply rules
- 4. In case of amendments:
  - a. If the original and the amended transactions are in two different GSTR 2B periods, it will be mandatory to take action on the original record and file the corresponding GSTR 3B before taking action on the amended record
  - b. If both the transactions are in the same GSTR 2B period, only the amended record will be considered for input tax credit in GSTR 2B
- 5. Any change to the transaction made by the supplier before filing their GSTR 1, GSTR 1A or IFF will reset that transaction's status in the recipient's IMS.
- 6. The transactions saved or filed through IFF by a taxpayer under the Quarterly Return Monthly Payment (QRMP) scheme will flow to the IMS of the recipient and will form part of the recipient's GSTR 2B based on the actions taken. For a QRMP taxpayer, the GSTR 2B will be generated on a quarterly basis and it will not be generated for the first two months of the quarter.

### **Availability**

IMS will be available on the GST portal as well as through APIs. On the GST portal, the recipients will be able to carry out the desired action either on individual transactions or on multiple transactions using the search, sort and filter options made available. GST portal will also facilitate downloading of the details of IMS in a spreadsheet format. GST portal will also facilitate 'reset' of the actions taken for the month prior to filing of GSTR 3B.

GSTN has currently released the following APIs for the IMS functionality on the API sandbox portal:

- Get IMS Request Status
- Get Invoice Count
- Get Invoices
- Reset IMS Action
- Save IMS Action
- Get IMS File Details

The APIs are expected to be available in the production environment in due course prior to the go-live date of 1 October 2024.

#### **Deloitte remarks**

While the intention of IMS has been stated to reduce the notices on account of input tax credit mismatch, it will certainly add to the compliance activities of the taxpayers along with the existing input tax credit reconciliation prior to finalizing their GSTR 3B. Also, IMS in its current form doesn't provide flexibility to partially accept, reject or keep pending the transactions. At the same time, the current form of IMS is the recipient-centric and it would require a supplier-side of the dashboard and visibility.

All taxpayers will need adequate time to prepare themselves for IMS and will require appropriate training to align with this newly introduced requirement as this will significantly impact input tax credit and working capital, especially on account of the invoices marked as pending and, therefore, not flowing into GSTR 2B and GSTR 3B.

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