

**COMPLIANCE AUDIT OF CENTRAL BOARD OF INDIRECT TAXES AND
CUSTOMS (CBIC)**

**COMMITTEE ON PUBLIC ACCOUNTS
(2024-25)**

NINETEENTH REPORT

EIGHTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

PAC NO. 2413

NINETEENTH REPORT

COMMITTEE ON PUBLIC ACCOUNTS
(2024-25)

(EIGHTEENTH LOK SABHA)

**COMPLIANCE AUDIT OF CENTRAL BOARD OF INDIRECT
TAXES AND CUSTOMS (CBIC)**



सत्यमेव जयते

Presented to Lok Sabha on: 26. 03. 2025

Laid in Rajya Sabha on: 26. 03. 2025

**LOK SABHA SECRETARIAT
NEW DELHI**

March 2025/ Chaitra 1947 (Saka)

CONTENTS

	PAGES
COMPOSITION OF THE COMMITTEE ON PUBLIC ACCOUNTS (2024-25)	(iii)
INTRODUCTION	(iv)

REPORT

PART-I

	INTRODUCTORY	1
A.	ADMINISTRATION OF INDIRECT TAXES AND REVENUE TRENDS	1
I.	INDIRECT TAXES REVENUE TREND	1
II.	GROWTH OF INDIRECT TAXES - TRENDS AND COMPOSITION	1
III.	RETENTION OF IGST IN THE CONSOLIDATED FUND OF INDIA	
IV.	NON-SUBMISSION OF COMPENSATION FUND ACCOUNT FOR THE YEARS 2017-18 TO 2020-21	
B.	EFFICIENCY OF THE COMPLIANCE VERIFICATION SYSTEM UNDER GST	
I.	SCRUTINY OF RETURNS UNDER GST	
II.	PROGRESS OF SCRUTINY OF RETURNS FOR FY18 AND FY19	
III.	INTERNAL AUDIT UNDER GST	
IV.	AGE-WISE PENDENCY OF APPEAL CASES	
V.	MONITORING OF APPEALS UNDER GST AND LEGACY TAXES (CENTRAL EXCISE AND SERVICE TAX)	
C.	OVERSIGHT MECHANISM OF GST PAYMENTS AND FILING OF RETURNS	
I.	LACK OF PROPER DOCUMENTATION	
II.	OVERSIGHT FUNCTION	
III.	NON-ADHERENCE TO PRESCRIBED PROCEDURE FOR SUO-MOTO CANCELLATION	
IV.	INCONSISTENCIES IN GST RETURNS - CENTRALISED AUDIT	
V.	DETAILED AUDIT	
D.	TRANSITIONAL CREDITS UNDER GST	
E.	DEPENDABILITY OF GST DATA MANAGED BY THE GOODS AND SERVICES TAX NETWORK	
F.	DATA ANALYSIS OF COMPOSITION LEVY SCHEME DATA	

I.	MISMATCH BETWEEN DECLARED SALES AND TAXES PAID	
G.	OTHER ISSUES RELATED TO GST RAISED DURING THE ORAL EVIDENCE	
	PART – II	
	OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE	
	APPENDICES	
I.	State GST (SGST) collections from 2018-19 to 2021-22	93
II.	List of top ten cases of non-production	94
III.	Top ten cases of partial production	95-97
IV.	Minutes of the Fourth Sitting of the Committee on Public Accounts (2024-25) held on 04-10-2024.	98-100
V.	Minutes of the Sixteenth Sitting of the Committee on Public Accounts (2024-25) held on 25-03-2025	101-102

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE

(2024-25)

Shri K. C. Venugopal - Chairperson

MEMBERS

LOK SABHA

2. Shri Thalikkottai Rajuthevar Baalu
3. Dr. Nishikant Dubey
4. Shri Jagdambika Pal
5. Shri Jai Parkash
6. Shri Ravi Shankar Prasad
7. Shri C M Ramesh
8. Prof. Sougata Ray
9. Shri Magunta Sreenivasulu Reddy
10. Smt. Aparajita Sarangi
11. Dr. Amar Singh
12. Shri Tejasvi Surya
13. Shri Anurag Singh Thakur
14. Shri Balashowry Vallabhaneni
15. Shri Dharmendra Yadav

RAJYA SABHA

16. Shri Ashokrao Shankarrao Chavan
17. Shri Shaktisinh Gohil
18. Dr. K Laxman
19. Shri Praful Patel
20. Shri Sukhendu Sekhar Ray
21. Shri Tiruchi Siva
22. Dr. Sudhanshu Trivedi

SECRETARIAT

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Muraleedharan. P - Director
3. Shri Alok Mani Tripathi - Deputy Secretary
4. Ms. Pragya Nama - Assistant Committee Officer

INTRODUCTION

I, the Chairperson, Committee on Public Accounts (2024-25) having been authorized by the Committee, do present this Nineteenth Report (Eighteenth Lok Sabha) on “**Compliance Audit of Central Board of Indirect Taxes and Customs (CBIC)**” based on Comptroller and Auditor General of India (C&AG) Report No. 7 of 2024 relating to the Ministry of Finance (Department of Revenue).

2. The C&AG Report No. 7 of 2024 was laid on the Table of the House on 08.08.2024.

3. Committee on Public Accounts (2024-25) selected the aforesaid subject for examination and took oral evidence of the representatives of Department of Revenue on the subject under examination on 4th October, 2024. Based on the oral evidence and written replies, the Committee examined the subject in detail during its term 2024-25.

4. Committee on Public Accounts (2024-25) considered and adopted the Draft Report on the aforementioned subject at their Sitting held on 25-03-2025. The Minutes of the Sittings are appended to the Report.

5. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in **bold** and form Part-II of the Report.

6. The Committee would like to express their thanks to the representatives of the Ministry of Finance (Department of Revenue) for the cooperation extended by them in furnishing the requisite information to the Committee.

7. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the Office of the Comptroller and Auditor General of India.

NEW DELHI
25 March, 2025
4 Chaitra, 1947 (Saka)

K. C. VENUGOPAL
Chairperson,
Committee on Public Accounts

PART I

Introduction

Goods and Services Tax (GST) is a comprehensive, destination-based indirect tax system established to streamline the taxation framework by merging various indirect taxes into a single tax applicable to the supply of goods and services. Officially launched on 1 July 2017 after the enactment of the Constitution (One Hundred and First Amendment) Act in 2016, GST is imposed at every level of the supply chain, from production to final consumption, and aims to eliminate the cascading tax effect, thereby enhancing transparency and efficiency within the tax system. This significant reform replaced several indirect taxes, including Central Excise duty, Service Tax, and Value Added Tax (VAT), resulting in a more efficient and simplified tax regime nationwide. In 2024, Audit Report No. 7 presented important findings from the compliance audit of the Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue. The key findings and observations of the Committee from the Audit Report, along with oral evidence gathered on the subject on 4th October 2024, are detailed in the following paragraphs.

A) ADMINISTRATION OF INDIRECT TAXES AND REVENUE TRENDS

I. INDIRECT TAXES REVENUE TREND

1. The Committee have learnt that the share of indirect taxes in total revenue receipts had constantly declined from 38.76 per cent in FY18 to 36.92 per cent in FY20. The share of indirect taxes in total revenue receipts, however, increased to 43.90 per cent in FY21. During FY22, the share of indirect taxes in total revenue receipts decreased to 39 per cent owing to significant y-o-y increase in direct taxes (49 per cent) and non-tax receipts (45 per cent). In this regard, it is also pertinent to mention that during the same period i.e. FY18 to FY22, corporate assesseees and non-corporate assesseees increased by 21 per cent (1.65 lakh) and 25 per cent (134.10 lakh), respectively, whereas CBIC administered GST taxpayers increased significantly by 71 per cent (23.05 lakh).

II. GROWTH OF INDIRECT TAXES - TRENDS AND COMPOSITION

2. The Committee have further learnt that Indirect taxes as a percentage of gross tax revenue showed an upward trend from FY 19 to FY 21 increasing from 45.18 per cent in FY 19 to 53.15 percent in FY 21. During FY 22, the percentage of indirect taxes to Gross Tax Revenue decreased to 47.75 percent from 53.15 percent in FY21. The decrease in the percentage of indirect taxes to Gross Tax Revenue may be attributed to the significant increase of 49.12 per cent in direct taxes collection during FY22. (Appendix -I)

3. On being asked about reasons for constant decline of the share of indirect taxes in total revenue receipts from 38.76 per cent in FY18 to 36.92 per cent in FY20 the Ministry replied as under:

“Indirect Taxes are consumption based tax which inter-alia depends on import volumes, rate of exchange of leading international currencies against INR, global economic conditions, prices of the imported goods in the international market, foreign trade agreements with major economies, global crude oil prices, consumption of petroleum, economic growth in the country, level of domestic consumption of goods & services. Apart from the above macro-economic factors tax collection depends on tax policy, change in tax rates, additional resource mobilization measures through annual budget (if any), improvement in tax compliance and broadening of tax base.

(i) For FY 2017-18 to 2019-20, policy related factors that have led to the shortfall in Indirect Tax revenue apart from the macro-economic reasons were such as: reduction in duty rates on FTA imports and impact of Export promotional schemes.

(ii) Also, IIP for FY 2019-20 registered negative growth and import volumes started declining towards the end of financial year due to onset of COVID across the globe. In FY 2019-20, the import volumes have decreased by 6.5% (y-o-y).

GST has been implemented w.e.f. 1st July, 2017. Initially, the GST rates were fixed based on pre-GST tax incidence and revenue neutrality of the rates but later on a number of rate rationalizations have been done on the recommendations of the GST Council, which has led to a shortfall in GST revenue. GST rates have been reduced significantly on supply of various goods and services.”

4. The Committee observed that During FY 22, the percentage of indirect taxes to Gross Tax Revenue decreased to 47.75 percent from 53.15 percent in FY21 despite the number of corporate assesseees and non-corporate assesseees increasing by 21 per cent (1.65 lakh) and 25 per cent (134.10 lakh), respectively, and CBIC administered GST tax payers increasing significantly by 71 percent (23.05lakh). When asked the reasons of this, the Ministry in its reply stated as under:

(i) “During the year 2021-22, there was an unprecedented growth of 49.0% in Direct Taxes Revenue. One of the primary reasons for the same was due to consecutive negative growth in the preceding years i.e. -7.7% (y-o-y) in 2019-20 & -10.0% (y-o-y) in FY 2020-21 whereas during these years indirect tax revenue has grown by 1.7% (y-o-y) in 2019-20 & 12.7% (y-o-y) in FY 2020-21. This has caused higher percentage share of indirect tax revenue as compared to Direct Taxes in these years which was offsetted in the year

2021-22 as indirect tax revenue growth was 20.0% in comparison to 49% growth of Direct Tax revenue.

(ii) Central Excise duties are specific duties & depend on global crude oil prices and consumption of petroleum. The excise duty was raised on Petrol & Diesel in March, 2020 (raised by ₹ 3 per litre for Petrol & Diesel both) where as the excise duty was raised by ₹ 10 per litre for Petrol & ₹ 13 per litre on Diesel in May, 2020 which contributed in healthy growth in Central Excise revenue resulting in y-o-y growth of 62.7% in Central Excise Duty Collections for FY 2020-21. However, in FY 2021-22 the y-o-y growth of Central Excise Duty was only 0.3% on account of reduction in excise duty in November, 2021 by ₹ 5 per litre in Petrol & ₹ 10 per litre in Diesel.

(iii) With regards to Customs, Government has made concerted efforts to rationalize Customs exemptions and a large number of exemptions have been removed. Further, policy changes like introduction of CAROTAR, extensive application of RMS, institutional mechanism of audits in customs etc. have helped in garnering additional revenue.”

5. Ministry in their background note had mentioned that Government has also initiated reforms based on leveraging technology such as “Turant Customs” programme for expediting Custom clearance process, integrating PGAs on e-Sanchit, extensive application of RMS. When asked to explain about the reforms and how they were supposed to help in more efficient GST ecosystem the Ministry replied as under:

“Turant Customs, with its 3 pillars faceless, paperless and contactless customs is an initiative of CBIC for streamlining customs processes to enhance trade efficiency and transparency. This digital and technology-driven platform enables faster customs clearances by minimizing physical interfaces, digitizing document submission, and implementing risk-based inspections. Key features include faceless assessment, automated queue management, and e-Sanchit for digital document storage. Risk Management System (RMS) of Indian Customs, CBIC is an automated framework designed to streamline cargo clearances while maintaining compliance and security. RMS uses data analytics to assess risk levels associated with consignments and importers. Low-risk cargo undergoes expedited clearance, whereas higher-risk shipments are subject to further examination. RMS minimizes delays, reduces manual interventions, and enhances the efficiency of India’s trade ecosystem by focusing on high-risk consignments while allowing compliant traders smoother, quicker processing. This system supports trade facilitation without compromising regulatory oversight and security. Integrating PGAs (Participating Government Agencies) into the e-Sanchit system helps facilitate data sharing between Customs and PGAs, provides a unified platform for regulatory clearances, single interface for trade to upload required documents

for various PGAs and automated alerts and notifications to relevant agencies upon submission of documents, thereby improving transparency in regulatory processes, minimizing redundant submissions and reduces clearance time. These initiatives are designed to boost ease of doing business, reduce logistics costs, and improve India's standing in global trade by expediting imports and exports through a simplified, paperless, and time-efficient customs process."

III. RETENTION OF IGST IN THE CONSOLIDATED FUND OF INDIA

6. Audit highlighted that as per Section 17 (2A) of the Integrated Goods and Service Tax Act, 2017 (IGST Act, 2017), the amount not apportioned under sub-section 17(1) and sub-section 17(2) of the IGST Act, 2017, may for the time-being, on the recommendation of the council, be apportioned at the rate of fifty per cent to the Central Government and fifty per cent to the State Governments or the Union territories, as the case may be, on ad-hoc basis and shall be adjusted against the amount apportioned under the said sub-section. During the FYs 2018-19, 2019-20, 2020-21 and 2021-22 the year-end IGST balance of ₹ 13,944 crore, ₹ 9,125 crore, ₹ 7,251 crore, and ₹ 2,119 crore, respectively, had been retained by the Central Government.

7. Ministry in its background note has mentioned that In spite of the best efforts by the Centre to maintain the year-end IGST balance close to 'zero' in CFI, some amount of un-apportioned IGST still remaining in CFI could not be avoided, as the accounted IGST figures for any particular financial year is only available in the later part of the succeeding financial year.

8. Observing that During the FYs 2018-19, 2019-20, 2020-21 and 2021-22 the year-end IGST balance of ₹ 13,944 crore, ₹ 9,125 crore, ₹ 7,251 crore, and ₹ 2,119 crore, respectively, had been retained by the Central Government. The Committee had asked whether the IGST had since been transferred to the States, duration of time taken to transfer the final accounted IGST figures, and details of apportionment of retained year-end IGST balances between the Centre and the States in the subsequent years. The Ministry in this matter replied as under:

"In order to avoid accumulation of un-apportioned IGST in Consolidated Fund of India (CFI) and depending upon the amount of IGST remaining un-apportioned, provisional / advance settlement is done from time to time on ad-hoc basis between Centre and States / UTs in the ratio of 50:50 and among the states on an agreed basis. Central Government has tried its best to maintain year end un-apportioned IGST close to Zero. In spite of the best efforts some amount of un-apportioned IGST could not be avoided as the accounted figures of IGST are available in the later part of the subsequent

financial year. However, the matter is under active consideration of this Department to transfer the unsettled IGST claims of a financial year into Public Account from Consolidated Fund of India (CFI) on 31st March of the financial year and then credit back the same unsettled amount into the IGST receipt head on 1st April of the following financial year. Under this system, the net balance in the IGST at the end of the Financial Year will be Zero and the transferred amount will again be available for settlement at the commencement of the new financial year. In this regard, the proposal for creation of the necessary accounting heads is under consideration of the O/o The CAG.”

IV. NON-SUBMISSION OF COMPENSATION FUND ACCOUNT FOR THE YEARS 2017-18 TO 2020-21

9. Audit pointed out that as per Section 10 (4) of the Act, the accounts relating to the Compensation Fund shall be audited by the Comptroller and Auditor-General of India (CAG) or any person appointed by him at such intervals as may be specified by him. Further, as per Section 10 (5) of the Goods and Services Tax (Compensation to States) Act, 2017 *ibid*, the accounts of the Compensation Fund as certified by the Comptroller and Auditor-General of India or any other person appointed by him in this behalf together with the audit report thereon shall be laid before each House of Parliament. Audit was still awaiting preparation and production of Compensation Fund Accounts for audit in an appropriate format, as suggested by Audit, under Section 10 (4) of the GST (Compensation to States) Act, 2017 (June 2023). As a result, Audit is still unable to perform its statutory auditing responsibility in respect of the financial years ended 31 March 2018, 31 March 2019, 31 March 2020 and 31 March 2021 as mandated by Section 10 (4) of the Act.

10. When asked about the reasons for the delay in finalisation and submission of Compensation Fund Accounts despite being pointed out by Audit in their report Report No.1 of 2021 and the challenges being faced by the Ministry if any, in production of Compensation Fund Accounts for audit in an appropriate format, as suggested by Audit, under Section 10 (4) of the GST (Compensation to States) Act, 2017 the Ministry replied as under:

“O/o CAG requested to take up the matter with O/o CGA in July 2021 to expedite the finalization of template for Compensation fund account. O/o CGA was requested on 31.01.2022, 26.10.2022 to expedite the finalization of template. The template/proforma of Compensation fund account was received from CGA on 14.11.2022 and DoR conveyed no objection on 27.12.2022. The Compensation fund account in the prescribed template/proforma submitted to

office of CCA, DoR vide letter dated 14.06.2023, 28.12.2023, 31.05.2024 and 06.08.2024 with request to submit the same to O/o CGA for onwards submission to CAG. AG Certificates in respect of all States/UTs for FY 2017-18 to FY 2021-22 have been received and processed in Department of Revenue except UT of Jammu & Kashmir for FY 2019-20 as bifurcated AG figures for FY 2019-20 have been sought from O/o Principal Accountant General, J & K due to exclusion of Ladakh. Accordingly, GST compensation Fund Account for FY 2017-18 to FY 2020-21 has already been submitted to Comptroller and Auditor General of India except Union Territory of Jammu and Kashmir for FY 2019-20 only. GST Compensation Fund Accounts are being submitted to O/o CCA, DoR periodically for submitting the same to O/o CGA for onward submission to O/o CAG. It is further submitted that the Compensation Fund Account were submitted to O/o CCA, DoR vide letter no. 14.06.2023, 28.12.2023, 31.05.2024 and 06.08.2024 (Annexure-I).”

11. On being asked if the Audit for the four financial years ended 31 March 2018, 31 March 2019, 31 March 2020 and 31 March 2021 had been carried out the Ministry replied as under:

“The audit for FY 2017-18, 2018-19, 2019-20 and 2020-21 have been carried out vide Report No. 100 dated 18.06.2019, 101 dated 14.07.2020, 102 dated Aug’ 2021 and 103 dated 06.10.2022 respectively. The nodal office for audit of Compensation Fund Account is DGACR, O/o CAG, Delhi. O/o CAG has convened a meeting on 13.11.2024 wherein officers of DoR and CGA have been invited to prepare comprehensive guidelines and checks for the audit of Compensation Fund Account.”

12. To a specific query as to what was the status of furnishing GST Compensation Fund Accounts to Audit for the FY-2021-22 to 2023-24, the Ministry replied as under:

“Details of GST Compensation Fund Accounts for FY 2017-18 to 2022-23 (up to June, 2022) are being submitted to O/o CCA on regular basis and it has recently been submitted to O/o CCA on 06.08.2024 (copy enclosed) with the request to forward the same to O/o CGA for onward submission O/o Comptroller and Auditor General of India. DoR has provided figures of final GST compensation released to those States who have provided AG’s certified revenue figures and provisional figures to those States who have not provided the AG’s certificate in the prescribed format.

As per the Constitution (One Hundred and First Amendment) Act 2016, GST Compensation is required to be paid to the States for five years on account of loss of revenue due to implementation of GST w.e.f. 01.07.2017. GST

compensation regime has been ended on 30th June, 2022. Therefore, there is no Audit obligation for FY 2023-24.”

13. When asked about the periodicity fixed for transfer of GST Compensation Cess to States, the Ministry’s reply reflected the following:

“101st Constitution Amendment Act provides that the Parliament, by law shall provide compensation to States for a period of five years for loss of revenue due to introduction of GST. Accordingly, the GST (Compensation to States) Act, 2017 was legislated which provides for release of compensation against 14% year-on-year growth over revenues in 2015-16 from taxes subsumed in GST. This compensation cess is credited to the compensation fund and as per the Act, all compensation is paid out of the fund. As per the provisions of section 7(2) of Goods and Services Tax (Compensation to States) Act, 2017, enacted by Parliament, the compensation payable to a State shall be provisionally calculated and released at the end of every two months period, and shall be finally calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. Accordingly provisional compensation were paid once in two months and balanced/final compensation were paid immediately on receipt of AG Certified figures.”

14. On being asked if there is any delay in transfer of GST Compensation Cess due to States/UTs, the Ministry replied as under:

“Bi-monthly GST compensation to States for the financial years 2017-18, 2018-19 and 2019-20 was released on a regular basis out of the Compensation Fund. The economic impact of the pandemic has led to higher compensation requirement due to lower GST collection and at the same time lower collection of GST compensation cess while the States’ protected revenue has been growing at 14% compounded growth. To ensure that States have adequate and timely resources to combat COVID and related issues, Centre borrowed ₹ 1.1 lakh crore in 2020-21 and ₹ 1.59 lakh crore in 2021-22 taking into account the need for resources and overall macro-economic stability and passed it on to States on a back-to-back basis after all the States agreed. Centre has released the entire amount of provisionally admissible GST compensation to the States/UTs for loss of revenue arising on account of implementation of Goods and Services Tax for five years i.e., from 1st July, 2017 to 30th June, 2022. Final Compensation arising out of reconciliation of provisional figures with audited figures is released immediately on receipt of AG's certificate and no amount is pending for release to States/UTs. AG certified revenue figures have been received from Himachal Pradesh for FY

2022-23 (April-June, 2022). On the basis of calculation, approx. ₹ 51 crore is admissible to the State of Himachal Pradesh and is under process. Hence, there is no delay in compensation due to States/UTs.”

15. Audit is yet to receive the Compensation Fund Account for the years 2017-18 TO 2020-21 for audit under section as per Section 10 (5) of the Goods and Services Tax (Compensation to States) Act, 2017.

B) EFFICIENCY OF THE COMPLIANCE VERIFICATION SYSTEM UNDER GST

16. Audit pointed out that in the previous CAG’s Audit Reports, they had recommended that a definite time frame for roll out of simplified return forms may be fixed and implemented as frequent deferments were resulting in delay in stabilization of the return filing system. In addition, Audit had recommended system-verified flow of Input Tax Credit (ITC) through “invoice-matching” and that the Ministry may rely more on preventive checks that are enforced through IT systems in the return forms, as originally envisaged, rather than relying on post-facto intervention by the tax offices in safeguarding Government revenue. Audit further reviewed the progress made with respect to the GST return mechanism and observed that while some of the limitations were addressed by the changes in the GST return system, the existing GSTR-3B still had gaps and needed improvement. The GST Council recommended that the proposal for comprehensive changes in GSTR-3B be placed in the public domain for seeking inputs/suggestions of the stake holders and to bring the suggestions before the GST Council for approval in a time bound manner. Accordingly, the Board had called for suggestions from stakeholders on proposed changes in GSTR-3B (July 2022). The suggestions of the stakeholders on the proposed changes were under consideration of Ministry for submission to the GST Council as of January 2023.

17. The Committee observed that as a result of keeping GSTR-2 and GSTR-3 in abeyance, ITC and monthly returns were not based on system-verified details, as originally envisaged. When asked How ITC and monthly returns were being calculated presently, the Ministry replied as under:

“GST Council, in its 42nd meeting held on 5th October 2020, recommended to make GSTR-1/3B return filing as the final return system in GST and incremental approach has been adopted to improve the quality of data and to move towards more system-verified details in monthly return in FORM GSTR-3B. Various measures taken towards the same are as below:

- i. A static auto-drafted ITC statement in GSTR-2B, based on GSTR-1/ GSTR-5/ GSTR-6 filed by the suppliers/distributors of

the taxpayer has been made available to the taxpayer with effect from August 2020 which contains the data regarding ITC available and ITC not available to the taxpayer.

- ii. In order to minimize human errors, tax liabilities and ITC in GSTR-3B return are being auto-populated from GSTR-1 and GSTR-2B respectively, with effect from December 2020 and it is envisaged that going forward the same will be made non-editable.
- iii. Further, in order to deal with difference in liability reported in GSTR-1 and GSTR-3B and the difference in ITC availed in GSTR-3B in comparison to ITC available in GSTR-2B, Rule 88C and Rule 88D have been inserted in CGST Rules. As per these provisions, if the said difference is more than a threshold, as recommended by the GST Council, taxpayer receives a system generated intimation regarding the same and they have to either pay tax/ reverse ITC or explain the unpaid difference, if any, in their reply, failing which the taxpayers are restricted to furnish GSTR-1 of subsequent tax period and action as per law may be taken to determine their tax liability.
- iv. Amendments have been made in Table 4 of GSTR-3B and Circular 170/02/2022-GST dated 06.07.2022 has been issued to mandate furnishing of correct and proper information of inter-State supplies and amount of ineligible/blocked ITC and its reversal in GSTR-3B.
- v. Amendments have been made in CGST Rules to allow population of net negative liability from FORM GSTR-1 in Table 3 of FORM GSTR-3B, which may arise on account of issuance of credit notes, downward revision of invoices etc.
- vi. E-invoice is required to be generated for taxpayers above annual aggregate turnover of ₹ 5 crore for B2B transactions and for export invoices. The data from e-invoice is being auto-populated in GSTR-1 of the taxpayer, which in turn is being used to auto-populate GSTR-3B returns.
- vii. An “Electronic Credit Reversal and Re-claimed Statement” has been made available to the taxpayers from the return period of August 2023, which enables the taxpayer to view the details of ITC reversed and ITC re-claimed for each return period and the balance available, such that the ITC re-claimed in GSTR-3B is not more than the ITC reversed.
- viii. From August 2024, taxpayers also have a facility to amend omissions or mistakes in their incorrectly declared outward supplies in GSTR-1/IFF through Form GSTR-1A, allowing them an opportunity to correct their liabilities before filing their GSTR-

3B, which obviates a need to edit in GSTR-3B, the auto-populated liability from GSTR-1.

- ix. To assist taxpayers in correctly reporting Reverse Charge Mechanism (RCM) transactions in GSTR -3B, a new statement called “RCM Liability/ITC Statement” has been made available from August 2024 which will ensure that ITC availed on RCM is not more than the tax discharged on RCM by the taxpayers.
- x. Additionally, to manage inward supplies and ensure accurate ITC in GSTR-2B, from October 2024 taxpayers have the option to take informed actions of accept/reject/pending on inward supplies via the Invoice Management System (IMS). It will obviate the need to edit ITC in GSTR-3B, auto-populated from GSTR-2B.”

18. When asked what were the major issues observed in Form GSTR- 3B the Ministry replied as under:

“GSTR-3B is a summary return of (a) Details of Outward supplies and inward supplies liable to reverse charge (b) Details of inter-state supplies made to the unregistered persons (c) Eligible input tax credit (d) Details of payment of tax (e) TDS/TCS credit. Making improvements in filing of returns to promote ease of compliance for taxpayers and ensure error free filing of returns is a continuous process. Number of changes have been made w.r.t. GSTR-3B after its inception.

- 1. Offline tools made available in GSTR 3B.
- 2. Preview of GSTR 3B was made available to taxpayers before filing of 3B
- 3. Error message was made specific to the error while making payment of tax in GSTR3B instead of generic message
- 4. Auto calculation of late fees based on the filing date of GSTR 3B and the due date of GSTR 3B was introduced.
- 5. Auto calculation of interest in GSTR 3B based on section 50 was introduced.
- 6. Facility to download GSTR 2A from the GSTR 2A screen was made available for ease of filing GSTR 3B.
- 7. Reconciliation API for Import of goods
- 8. Electronic Verification Code facilities extended to the companies for submission of GSTR 3B.
- 9. Auto population of liabilities from GSTR 1 to GSTR 3B was implemented

10. Auto population of ITC from GSTR 2A (Till 31.12.21) / GSTR 2B (from 1.1.22) to GSTR 3B

11. comparison reports have been developed and made available to taxpayers and tax officers showing the difference in liability declared in GSTR 1 and GSTR 3B and difference in ITC as per GSTR 2A/2B vs ITC claimed in GSTR 3B

The number of tickets raised for issues faced in filing of GSTR-3B have reduced significantly over time.”

19. On being asked by when are the suggestions of the stakeholders on the proposed changes which were under consideration of Ministry for submission to the GST Council (as of January 2023) were to be examined the Ministry replied as follows:

“The various suggestions of the stakeholders have been examined by the Law Committee and keeping in mind the technical feasibility and compliance burden on the taxpayers, following amendments have been made: -

- (i) Amendments have been made in Table 4 of GSTR-3B and Circular 170/02/2022-GST dated 06.07.2022 has been issued to mandate furnishing of correct and proper information of inter-State supplies and amount of ineligible/blocked ITC and its reversal in GSTR-3B.
- (ii) Amendments have been made in CGST Rules to allow population of net negative liability from FORM GSTR-1 in Table 3 of FORM GSTR-3B, which may arise on account of issuance of credit notes, downward revision of invoices etc.
- (iii) An “Electronic Credit Reversal and Re-claimed Statement” has been made available to the taxpayers from the return period of August 2023, which enables the taxpayer to view the details of ITC reversed and ITC re-claimed for each return period and the balance available, such that the ITC re-claimed in GSTR-3B is not more than the ITC reversed.
- (iv) From August 2024, taxpayers also have a facility to amend their incorrectly declared outward supplies in GSTR-1/IFF through GSTR-1A, allowing them an opportunity to correct their liabilities before filing their GSTR-3B, which obviates a need to edit in GSTR-3B, the auto-populated liability from GSTR-1.
- (v) To assist taxpayers in correctly reporting Reverse Charge Mechanism (RCM) transactions in GSTR -3B, a new statement called “RCM Liability/ITC Statement” has been made available from August 2024 which will ensure that ITC availed on RCM is not more than the tax discharged on RCM by the taxpayers.

(vi) Additionally, to manage inward supplies and ensure accurate ITC in GSTR-2B, from October 2024 taxpayers have the option to take informed actions of accept/reject/pending on inward supplies via the Invoice Management System (IMS). It will obviate the need to edit ITC in GSTR-3B, auto-populated from GSTR-2B.”

I. SCRUTINY OF RETURNS UNDER GST

20. Audit requested CBIC (November 2022) to provide the details of ASMT-10, ASMT-11 and ASMT-12 issued/received by the departmental formations for the years 2018-19, 2019-20 and 2020-21 (at GSTN or CBIC premises) to plan and carry out audit of returns’ scrutiny function of the department. However, the same was yet to be provided to Audit (March 2023).

21. Audit had further recommended In Para 3.2.2 on Standard Operating Procedure (SOP) for Scrutiny of Returns, that “the risk-based Scrutiny Module, with periodic review of risk parameters based on inputs received from Directorate General of Analytics and Risk Management (DGARM) reports and audit findings in earlier Audit Reports, may be implemented at the earliest to ensure full transparency and for robust oversight and monitoring of the scrutiny function of the Department.”

22. When asked if the data pertaining to ASMT-10, ASMT-11 and ASMT-12 had been made available to Audit by the Ministry, the Ministry replied as under:
“Data related to ASMT-10, ASMT-11 and ASMT-12 for the year 2018-19, 2019-20 and 2020-21 has been made available to C&AG.”

23. On being asked whether the risk-based Scrutiny module has been implemented by the Department and any oversight mechanism has been established to monitor it and whether there’s any effect on Part II of the Risk-based Selectivity system (RSS) due to non availability of Part I data, the Ministry replied as under:

“Part-I of the Risk Based Selectivity System (RSS) was available in production. The CBIC back office has since been ported from ACES-GST Application to GSTN Back Office (BO) w.e.f. 1st June, 2024.

- i. The Automated Return Scrutiny Module for GST returns in the ACES-GST backend application for Central Tax Officers was rolled out by CBIC in 2019-20. The module enabled the officers to carry out scrutiny of GST returns of taxpayers selected on the basis of data analytics and risks identified by the System.

- ii. Discrepancies on account of risks associated with a return were displayed to the tax officers. Tax officers were provided with a workflow for interacting with the taxpayers through the GSTN Common Portal for communication of discrepancies noticed under FORM ASMT-10, receipt of taxpayer's reply in FORM ASMT-11 and subsequent action in form of either issuance of an order of acceptance of reply in FORM ASMT-12 or issuance of show cause notice or initiation of audit / investigation. Automated Returns Scrutiny Module, which implements a system-based scrutiny on specified criteria, leading up to auto-generation of draft discrepancy intimation (ASMT-10) to be issued to the taxpayer, is under development. This is anticipated to streamline the scrutiny process, providing the opportunity to the taxpayer to explain the mismatches or pay the liabilities before the matter reaches the adjudication or litigation stage.

Part-I of the Risk based Selectivity System (RSS) provides for Risk factor Creation, Risk Rule Creation and Risk based selection of Returns for scrutiny. Due to porting of CBIC back office from ACES-GST Application to GSTN Back Office (BO) w.e.f 1 st June, 2024, the said risk engine has not been used for selection of Returns for scrutiny. DGARM disseminates the data in respect of scrutiny of return to field formations through e-mail. Part II dealt with providing a dashboard and a work flow for the field officers.”

24. Chairman CBIC, during the evidence held on 24.10.2024 on the issue of ASMT data also stated as under:

“I would like to add that earlier CBIC was working from ACES GST back-office system and as I mentioned, there were some lags in developing some new utilities, so what has happened as a result, in certain cases ASMTs were issued and communicated to the taxpayers through e-mail mode. In such cases, there is no footprint of such ASMT in ACES GST back office as well as on GSTN for initial years. And therefore, the data was to be compiled by getting it from all the field formations manually. So, that led to some delays. But now, the data has been collected and for subsequent period, when this was developed on ACES GST back office of CBIC, the ASMTs were getting generated from the back office and communicated through the GSTN front office. The data has been pulled out from the system and now been furnished. Now, the CBIC has transitioned to the GSTN back office, and now, there is no issue on reporting the ASMT figures.”

II. PROGRESS OF SCRUTINY OF RETURNS FOR FY18 AND FY19

25. Audit had recommended that the Department may ensure the completion of scrutiny within the prescribed time limit to ensure that demands, if any, do not become time-barred. When Audit pointed this out (February 2023), Ministry attributed (June 2023) non-completion of returns' scrutiny process within 90 days to various factors such as additional time sought by taxpayers and delay in filing of ASMT-11, technical glitches in the system, time consumed in reconciliation of GSTR-1 and GSTR-3B. Ministry further stated that all efforts were being made to ensure that the scrutiny is completed within the prescribed time limit to ensure that demands, if any, do not become time-barred.

26. When the Ministry was asked to provide the details of efforts taken by the Ministry in ensuring that the Scrutiny process is completed within the prescribed time limit, it replied as under:

1. "CBIC has issued Instruction No. 02/2022-GST dated 22.03.2022 regarding Standard Operating Procedure (SOP) for Scrutiny of Returns to all the CGST Zones.
2. In view of above instructions, GSTINs are allocated to all the CGST zones by Directorate General of Analytics and Risk Management (DGARM) for each financial year for scrutiny of returns and monthly scrutiny progress report of each financial year is being submitted by the CGST zones to the DGGST.
3. Due date for completion of scrutiny of GST returns and last date of issue of SCN are as follows:

Particulars	Due dates to complete scrutiny of returns for various financial years			
	2017-18	2018-19	2019-20	2020-21
Financial year for which adjudication order is to be passed				
Due date of filing annual return	05.02.2020/ 07.02.2020*	31.12.2020*	31.03.2021*	28.02.2022*
Last date of issuance of SCN under Section 73 of CGST Act,	30.09.2023	31.01.2024	31.05.2024	30.11.2024

2017				
Last date of issuance of SCN under Section 74 of CGST Act, 2017	05.08.2024/ 07.08.2024	30.06.2025	30.09.2025	31.08.2026

*Note: Due date of furnishing annual return of financial year 2017-18, 2018-19, 2019-20 and 2020-21 was extended.

4. As per the reports received from CGST zones, Scrutiny of GST returns for (i) F.Y. 2017-18 under Sections 73 and 74 of CGST Act, 2017 and (ii) F.Y. 2018-19 and F.Y. 2019-20 under Section 73 of CGST Act, 2017 has already been completed within the prescribed time limit by the field formations, and SCNs and Orders in required cases were also issued before the due date.
5. Further, the scrutiny of GST returns is being monitored and compiled by Directorate General of Goods and Services Tax for F.Y. 2018-19 and F.Y. 2019-20 (Section 74 of CGST Act, 2017), and F.Y. 2020-21 on regular basis to ensure that Scrutiny process is completed within the prescribed time limit.”

III. INTERNAL AUDIT UNDER GST

27. As is evident from the table No.3.2 of the Audit Report, the number of units audited during FY20, FY21 and FY22 were 2 percent, 26 percent and 48 percent, respectively, of the total units planned. Although there has been a substantial increase in the percentage of units audited in FY-2022 there is still a huge gap between the number of units planned and audited. The total recovery effected was 20 per cent and 21 per cent of the detected short levy in FY 20 and FY 21, respectively. However, during FY22, the total recovery effected declined to 17 per cent from 21 per cent in FY 21. Ministry, during 2021-22, had attributed the short coverage of units during internal audit to the shortage of officers in the Audit Commissionerates, especially in the grade of inspectors whose working strength was less than 50 per cent of the sanctioned strength in most of the Audit Commissionerates.

28. Noting that there has been a substantial increase in the percentage of units audited in there is still a huge gap between the number of units planned and audited

When asked what steps are being taken by the Ministry to address this huge gap, the Ministry replied as under:

“The taxpayers are allotted for audit as per norms prescribed in the GST Audit Manual, 2023. The norms, though, prescribe various aspects to be considered while allocating taxpayers to Audit Commissionerates based on their audit capacity calculated on their working strength, the allocation until FY 2023-24 was normally being done for conducting audit covering audit period of one year. However, since after the year 2019-20, the taxpayers were being audited for a period covering more than one year (presently up to five years), the audit capacity of the Commissionerates was compromised due to limited available manpower. This resulted in the gap between the number of taxpayers allotted for audit and audited by the field formations. Now, in the year 2024-25, this issue has been addressed by allotting the taxpayers commensurate with the audit capacity of the Audit Commissionerates.”

29. Ministry during 2021-22 had attributed the short coverage of units during internal audit to the shortage of officers in the Audit Commissionerates especially in the grade of Inspectors whose working strength was less than 50 per cent of the sanctioned strength in most Audit Commissionerates. When asked how is the department planning to address this shortfall, the Ministry replied as under:

“In order to address the shortfall of manpower in general in the grade of Inspector, DR vacancies have been regularly collected from CCAs and being reported to SSC for recruitment. Also, CCAs have been sensitized and directed to conduct DPCs on regular basis and to promote the officers against available PR quota vacancies. Since March 2022, CBIC has recruited 10522 officers in DR quota and 345 officers in PR quota (promoted from the feeder cadre) in the grade of Inspector. Further, 3184 DR quota vacancies in the grade of Inspector for year 2024, have already been reported to SSC for recruitment which is under process.”

30. On being asked the current position of manpower deployed in the Audit Commissionerates as against the requirement and whether any recruitment has been done in the last two years to fill the vacancies, the Ministry furnished the following reply:

“The latest available data of working strength in Audit formations in CBIC is as on 01.07.2024, which is detailed below in Annexure-A. Further, in order to

address the shortfall in the cadre of Inspector grade, CBIC has recruited 10522 officers through DR and 345 officers through PR in the Inspector grade since March, 2022. Also, 3184 DR vacancies in the grade of Inspector for year 2024, have already been reported to SSC for direct recruitment.”

Annexure-A (Data as per Half Yearly Brochure of CBIC as on 01.07.2024)												
CADRE	GST Audit formations			Customs Audit Formation			Directorate (DG Audit)			Total		
	SS	WS	VP	SS	WS	VP	SS	WS	VP	SS	WS	VP
Pr. CC (Apex)	0	0	0	0	0	0	0	0	0	0	0	0
CC (HAG+)	0	0	0	0	0	0	1	1	0	1	1	0
Pr. Commr .	0	6	-6	2	1	1	3	3	0	5	10	-5
Commr . (incl. Adj.)	48	41	7	7	7	0	5	4	1	60	52	8
ADC/ JC	94	82	12	21	17	4	8	8	0	123	107	16
DC/ AC	480	357	123	117	96	21	25	18	7	622	471	151
Supdt. of C. Ex.	2646	2255	391	467	383	84	25	16	9	3138	2654	484
Supdt. Cus. (P)	0	0	0	113	62	51	0	0	0	113	62	51
Appraiser	0	0	0	100	74	26	0	0	0	100	74	26
Inspector of C. Ex.	3266	1900	1366	680	388	292	55	27	28	4001	2315	1686
Prev. Officer	0	0	0	133	25	108	0	0	0	133	25	108
Examiner	0	0	0	76	36	40	0	0	0	76	36	40

31. In this regard, Secretary Ministry of Finance (Department of Revenue), during the evidence held on 4th October 2024 stated as under:

“There is no shortage at the level of Commissioner, Additional Commissioner, Joint Commissioner and Superintendent. There is some shortage at the Assistant Commissioner and Inspector levels, which we are trying to fulfil both by direct recruitment and as well as by promotion wherever the mode of recruitment is promotion.”

IV. AGE-WISE PENDENCY OF CASES PENDING FOR INVESTIGATION

32. Audit observed that overall 19,730 cases relating to GST with tax implication of 1,44,672.78crore were pending for investigation as of March, 2022 out of which 3,663 cases (19 per cent) with tax implication of 31,415 crore (22 per cent) were pending for more than 2 years.

33. When asked about, what concrete Steps are being taken to expedite the disposal of GST cases pending investigation for more than 2 years, the Ministry replied as under:

“The issue of high pendency beyond one year has been closely monitored and the details of cases closed by DGGI by way of issuance of SCNs/voluntary payment with applicable duty and penalty in F.Y. 2022-23 and F.Y. 2023-24 are as follows:

Financial Year	Total No. of Cases closed	
	No. of Cases	Amt. involved (₹ in Crore)
2022-23	7584	1,08,856
2023-24	4398	1,75,999

Constant efforts have been made by this Directorate to reduce pendency of old cases. The closing balance of pending cases as on 31.08.2024 is furnished in the following table:

Balance as on 31.08.2024		Less than 1 year		1-2 year		More than 2 years	
No. of Cases	GST involved (in Crore)	No. of Cases	GST involved (in Crore)	No. of Cases	GST involved (in Crore)	No. of Cases	GST involved (in Crore)

3685	1,06,781	2764	91,805	898	13,042	23	1,933
------	----------	------	--------	-----	--------	----	-------

V. MONITORING OF APPEALS UNDER GST AND LEGACY TAXES (CENTRAL EXCISE AND SERVICE TAX)

34. Audit had highlighted that while collecting the Government revenue, there could be difference of opinion and disputes between the Department and the tax payers. To provide a level playing field, a well-defined mechanism for dispute resolution is necessary.

35. On being asked about steps are being take to simplify the overall process of Appeals under GST and Legacy taxes the Ministry replied as under:

“The Board has issued instructions for reducing the pendencies of appeals as under:

(i) A Circular No. 1081/202-EX dated 19.01.2022 was issued wherein field formations were instructed to file miscellaneous applications for early hearing, out of turn hearing, early decision, stay vacation, bunching of cases as per merits to reduce pendency in various appellate fora.

(ii) Monetary limit for filing appeals in various fora. w.r.t. legacy cases pertaining to Legacy (C.Ex. & S. Tax), Customs and GST have been enhanced vide Instruction F.No. CBIC-160390/20/2024-JC-CBEC dated 06.08.2024, Instruction F. No. 390/Misc/30/2023-JC dated 02.11.2023 & Circular dated 26.06.2024 respectively. Post enhancement the Monetary Limit are as follows”:-

S.No.	Appellate Forum	Enhanced Monetary Limit		
		Legacy (C.Ex. + S.Tax)	Customs	GST
1	Supreme Court	₹ 5 Crore	₹ 2 Crore	₹ 2 Crore
2	High Courts	₹ 2 Crore	₹ 1 Crore	₹ 1 Crore
3	CESTAT/GSTAT	₹ 60 Lakh	₹ 50 Lakh	₹ 20 Lakh

Consequent to enhanced monetary limit, a total of 200 Legacy appeals & 14 Customs appeals have been dismissed by the Hon'ble Supreme Court. Procedural/Legal measures adopted to simplify the process of Appeals under GST: -

- (i) Notification no 26/2022 dated 26.12.2022 has been issued by CBIC in the direction to make appeal process simpler and comprehensive.
- (ii) Notification no 53/2023 Central Tax dated 2nd Nov 2023: Under this notification, relief was provided to the taxpayers who could not file their GST appeals against the order passed by proper officer on or before 31st of March 2023 within the time period specified in sub section 1 of section 107 read with sub section 4 of section 107 of the CGST Act, 2017. The said person could file an appeal against the said order on or before January 31, 2024. This scheme offered a valuable opportunity to taxpayers who missed the deadline for the appeal.
- (iii) Establishment of the GST Appellate Tribunal(GSTAT) under Section 109 of the CGST Act, 2017: Principal bench as well as State benches of the GST Appellate Tribunal have been notified.
- (iv) President of the GSTAT has already entered into office on 06.05.2024.
- (v) The selection and appointment process for Judicial and Technical members of Principal and State benches of the GSTAT is underway.
- (vi) Besides, the technology platform for processing of appeals by the GSTAT is already under development by GSTN.
- (vii) It is expected that the GSTAT will be fully functional in a short time.
- (viii) Amendments have been made in Rule 110 and Rule 111 of CGST Rules vide Notification No 12/2024-Central Tax dated 10th July 2024 to streamline the processes governing appeals and applications in the GST Appellate Tribunal.
- (ix) Further Rule 113A has been inserted in CGST Rules to allow for the withdrawal of appeals or applications filed before the Appellate Tribunal at any time before the Tribunal issues an order under section 113(1).
- (x) Amendment has been made in Section 107 and Section 112 of CGST Act for reducing the amount of pre-deposit required to be paid for filing of appeals under GST to ease cash flow and working capital blockage for the taxpayers. The maximum amount for filing appeal with the appellate authority has been reduced from ₹ 25 crores CGST and ₹ 25 crores SGST to ₹ 20 crores CGST and ₹ 20 crores SGST. Further, the amount of pre-deposit for filing appeal with the Appellate Tribunal has been reduced from 20% with a maximum amount of ₹ 50 crores CGST and ₹ 50 crores SGST to 10 % with a maximum of ₹ 20 crores CGST and ₹ 20 crores SGST.
- (xi) Further, based on the recommendations of the GST Council in its 53rd meeting held on 22.06.2024, monetary limits for filing appeals by the departmental officers before the GST tribunal, Hon'ble High Courts, and the Hon'ble Supreme Court have been prescribed vide Circular No. 207/1/2024-GST dated 26.06.2024. This will reduce frivolous non-repetitive low revenue litigations.

In respect of Central Excise appeal cases, out of a total 28,453 appeal cases pending as on 31 March 2022, 7,861 cases (28 per cent) were pending for more than five years; and 1,835 cases were pending for more than 10 years. However, there was a decrease of 1,802 appeal cases (six per cent) in Central Excise appeal cases pending in various fora, during 2021-22. As regards Service Tax, out of a total 36,577 appeal cases pending as on 31 March 2022, 6,674 (19 per cent) were pending for more than five years. Further, there was an increase of 1,458 Service Tax appeal cases (four per cent) in 2021-22. An increase of 878 cases (15 per cent) was also observed during 2021-22 in the Service Tax appeal cases pending at various legal forums for more than five years. With respect to GST, there was an increase of 3,297 appeal cases (60 per cent) in 2021-22, with 2,727 appeal cases pending in various legal forums for more than one year. Further, there was an increase of 103 per cent (1,383 cases) in the GST cases pending for more than one year.”

36. With respect to GST, there was an increase of 3,297 appeal cases (60 per cent) in 2021-22, with 2,727 appeal cases pending in various legal forums for more than one year. Further, there was an increase of 103 per cent (1,383 cases) in the GST cases pending for more than one year. When asked what were the reasons for increase in these cases, the Ministry replied as under:

“The pendency position of GST cases is tabulated below:

As on 31.03.2021		As on 31.03.2022		As on 31.03.2024	
Total cases	Cases more than one year	Total cases	Cases more than one year	Total cases	Cases more than one year
5484	1344	8781	2727	8166	2801

Thus, it is seen that GST appeals have decreased by 7 per cent to 8166 as on 31.03.2024 as against 8781 as on 31.03.2022.

Reasons for increase in appeals under GST are as under:

(i) CBIC vide Notification No. 13/2022-CT dated 5th July, 2022 extended the time limit specified under sub-section (10) of section 73 for issuance of order under subsection (9) of section 73 of the said Act, for recovery of tax not paid or short paid or of input tax credit wrongly availed or utilized, in respect of a tax period for the financial year 2017-18, up to the 30th day of September, 2023. As the time limit for issuance of order was extended up to 30.09.2023, it led to the increase in the no. of appeals filed.

(ii) SCN/Adjudication orders to be passed within 3 years / 5 years from the date of filing of Annual Returns for any discrepancies/ contravention of Acts/Rules made there under (Section 73 & 74 respectively of CGST Act, 2017).”

37. On being asked whether the Ministry has categorized the pending cases to identify areas which areas are receiving the maximum number of cases and whether the Ministry can provide details of areas which have seen the maximum increase in cases, the Ministry replied as under:

“The identified areas where the maximum number of cases, pertains to the category of Refund, Cancellation of GST registration etc. under CGST Act, 2017.”

C) OVERSIGHT MECHANISM OF GST PAYMENTS AND FILING OF RETURNS

I. LACK OF PROPER DOCUMENTATION

38. Audit had observed that:

a) Though the work of Ranges involves an entire gamut of activity related to tax administration, there were no specific instructions issued on the maintenance of records in the Ranges. The Department had developed a back-end system, but the Management Information System (MIS) Reports related to the returns module have only been partially deployed.

b) There was no procedure of handing/taking over of charges in the Ranges at the cutting-edge levels of Superintendent and Inspector. This, coupled with Range Officers continuing to use third-party email services for exchanging communication with taxpayers and other departments resulted in the risk of new incumbents being completely unaware of past actions and historical information about the cases in the Ranges. (Appendix II & III)

39. Audit had recommended that “The Department may expedite automation of back-end processes such as identification and issue of notices to non-filers (GSTR-3A), identification of mismatches in returns, issue of Show Cause Notice (REG-17), follow-up on assessment and demand orders and scrutiny of returns. Till such time automation is complete, Department may ensure proper maintenance of manual records/registers. “

40. The Ministry on the aforesaid issue provided the following comments:

(1) “Back-end processes relating to issue of notices to non-filers of GSTR-3B (GSTR-3A Notice), identification of mismatches in returns (GSTR-3B VS GSTR-1), scrutiny of returns were already in place in CBIC-ACES-GST Application. The back-end operations of CBIC-ACES-GST application were ported to GSTN BO since June-2024. The automation of the aforesaid back-end processes is also available in GSTN BO.

(2) Directions have already been issued vide F. no. CBEC-20/16/14/2019-GST-Vol.2/279-280 dated 11.04.2023 to Field Formations to ensure handing-over/ taking-over in appropriate manner.”

41. On being asked whether the Department is still dependent on manual records and registers and if so, whether such registers were being inspected from time to time and the inspection reports being submitted regularly the Ministry replied as under:

- a. “DGPM conducts inspection of the field formation as per the Annual Plan for Inspection approved by the CBIC in terms of “SOP for Quality Assurance in Inspections of Commissionerates”.
- b. At the time of inspection, the manual records & registers maintained by field formation is examined as stipulated in para 1.3.9 of SOP, 2023 by Inspection team.
- c. Inspection report is issued by the inspection team of DGPM in respect of discrepancies noticed during the inspection of records pertaining to the Commissionerate, to the concerned Commissioner/Chief Commissioner for taking suitable remedial measures.”

42. On being asked about the reasons for delay in completing the automation of GSTR-3A notices and REG-17 Show Cause Notices and time frame for completing the automation of the remaining processes like GSTR-3A and REG-17, the Ministry replied as under:

“Post migration of CBIC to GSTN Back office, the facility of auto generation of GSTR-3A/ REG 17 is available. In the case of non-filing of six monthly/2 quarterly returns, automated system generated notice i.e. REG-17/31 are being issued. However, REG-17 Show Cause Notice can also be issued by the proper officer.”

43. When asked how effective has issuance of GSTR-3A notices directly from the GSTN been, in reducing the number of non-filers the Ministry replied as under:

“The automation of GSTR-3A and issuance of system generated notices in case of non-filing of six monthly/2 quarterly returns has provided a mechanism for addressing the issue of non-filers promptly. The GSTR-3A was rolled out during November 2020. The percentage of taxpayers who filed the returns within the due date during the period from July 2017 to November 2020 was 57%. This number has gone up to 74% during the period from December 2020 to August 2024 showing a remarkable increase in percentage of taxpayers filing the returns within the due date. The percentage of taxpayers who filed the returns within the due date during the period from April 2023 to August 2024 was 81%.By the end of the month in which due date falls 90.02 % of the taxpayers file their return now.”

44. Audit had noted that manual records for critical functions such as monitoring return filings and handling non-filers were poorly maintained. On being asked about the mechanisms in place to ensure that registers and records are being maintained, especially in ranges where automation is still incomplete, the Ministry replied as under:

- a. “DGPM conducts inspection of the field formation as per the Annual Plan for Inspection approved by the CBIC in terms of “SOP for Quality Assurance in Inspections of Commissionerates”.
- b. At the time of inspection, the manual records & registers maintained by field formation is examined as stipulated in para 1.3.9 of SOP, 2023 by Inspection team.
- c. Inspection report is issued by the inspection team of DGPM in respect of discrepancies noticed during the inspection of records pertaining to the Commissionerate, to the concerned Commissioner/Chief Commissioner for taking suitable remedial measures.”

45. When asked that beyond issuing notices to non-filers, what additional measures are in place to ensure these defaulters comply with filing requirements and what actions are taken in case taxpayers continue to default even after receiving notices, the Ministry replied as under:

“Several measures have been taken to ensure filing of returns by defaulters, such as:-

Rule 59(6)(a) has been inserted in CGST Rules, which requires a taxpayer to file GSTR-3B before filing GSTR-1 of subsequent period, thereby bringing return filing discipline among the taxpayers.

(i) Further, Rule 138 E(b) has been inserted in CGST Rules which provides that if a taxpayer does not furnish GSTR-3B for 2 consecutive tax periods, he is restricted from generating E-way bill, which also acts as an incentive to file GSTR-3B.

(ii) Further, in cases where the return has not been furnished for a continuous period of six months, the registration of the taxpayer is suspended by the system and the action can be initiated by the proper officer under sub-section (2) of section 29 of the CGST Act for cancellation of registration.

(iii) Furthermore, Section 62 of CGST Act provides for assessment of non-filers of return of registered persons who fails to furnish return under section 39 or section 45 even after service of notice to non-filers under section 46.

A Standard Operating Procedure to be followed by the tax officers in case of non-filers of returns were issued to the field formations under GST vide Circular no. 129/48/2019 – GST dated 24.12.2019.”

46. The audit highlighted that Management Information System (MIS) reports have only been partially deployed. When asked to clarify why the deployment of these reports was incomplete across the returns module and what steps are being taken to ensure their full implementation, the Ministry replied as under:

- i. “The Audit recommendations pertain to the CBIC ACES GST System.
- ii. The CBIC Back Office has now migrated to the GSTN Back Office.
- iii. The MIS available on GSTN Back Office for States is being made available to CBIC in a phased manner as mutually decided between GSTN and CBIC.

Note on the current status of MIS reports made available to CBIC till September 2024

Currently 126 MIS reports are available to States such as report of GSTR 3B non -filers, non- filers/Nil filers of GSTR 3B who have TDS/TCS credit, list of taxpayers having mismatch of liability between GSTR 1 and GSTR 3B, list of taxpayers having mismatch of ITC in GSTR 3B and GSTR 2A, tax collection monthly, tax collection daily, site visit report, report of taxpayers who have switched to composition scheme but not reversed ITC on goods in stock, refund pendency report, list of taxpayers who have generated e way bill but not filed GSTR 3B, disposal and pendency of cancellation application, list of suo-moto cancellation, etc. The target for deployment during phase-I (to be rolled out by October 2024) has been fixed at 50. Out of these 30 MIS reports stand rolled out successfully as on 1st September 2024. These include all the reports in bold above. After all the reports available for States

are deployed, a committee will review whether any additional reports are required to be developed for CBIC.”

47. The Ministry mentioned that certain back-end processes are already automated or are being expedited. When asked what measures are being taken to ensure seamless transition from manual to automated processes to avoid lapses in documentation and oversight during this phase, the Ministry replied as under:

“All the processes on GSTN Back office are completely automated in the sense that all documents are issued by the proper officer through common portal. Following are some of the recent enhancements made on the GST portal to facilitate the taxpayer and encourage compliance, –

- To facilitate the taxpayers in accurate reporting of reversal and reclaim of ITC, a new ledger, namely Electronic Credit and Re-claimed Statement (ITC Reclaim ledger) has been introduced on the GST portal for each return period. The taxpayers have been given suitable time period within which they have to declare their opening balance and a further period up till when amendment to the same is allowed.
- To capture the negative values and their adjustments in subsequent period arising out of recent changes introduced by notification 12/2024 dated 10th July 2024, a negative liability statement/ledger is developed which shall be maintained in backend for all the taxpayers and shall be available to both taxpayers and tax officers soon.
- Form GSTR-1A, an optional Form/ facility, has been provided to the taxpayers to add or amend any particulars of any supply of the current tax period which was missed out while reporting in FORM GSTR-1 of the said tax period. This will simplify the complications faced by the taxpayer while reporting outward supplies and ease the rectification process.
- Automated Returns Scrutiny module, which implements a systems-based scrutiny on specified criteria, leading up to auto-generation of draft discrepancy intimation (ASMT-10) to be issued to the taxpayer, is under development. This is anticipated to streamline the scrutiny process, providing the opportunity to the taxpayer to explain the mismatches or pay the dues before the matter reaching the adjudication or litigation stage.
- To achieve the objective of complete matching of records/invoices and controlling the ITC flow in the system, a functionality called Invoice Management System (IMS) has been developed for the recipient taxpayers that will allow them to accept,

reject or keep the invoice pending in the system. IMS will also provide a communication platform between supplier and recipient, so that invoice level correction could be carried out, if pointed out by the recipient by way of rejection.

- The GST Council in its 53rd meeting had recommended to roll-out biometric-based Aadhaar authentication of registration applicants on pan-India basis in a phased manner. Biometric Based Aadhaar Authentication was implemented as a pilot project in Puducherry in August 2023 and has now been extended to the states of Andhra Pradesh, Gujarat, Delhi, Punjab, Bihar, Jammu and Kashmir, Karnataka, West Bengal, Dadra and Nagar Haveli and Daman and Diu, Chandigarh, Uttarakhand. This functionality has created deterrence for fraudulent activities and has made GST ecosystem more robust and secure. GSTN is targeting to implement the same in remaining states soon.

- To strengthen the GST registration process and to prevent unscrupulous elements from entering the GST ecosystem, mechanisms for automated validations have been put in place. The bank accounts declared by taxpayers are being verified from NPCI. As a pilot, the Consumer Account (CA) number in electricity bills is also being verified with discoms in specific states and the same is displayed on the Tax Officers' dashboard.

- Various validations and cross-checks for invalid data input by taxpayers have been incorporated on the common portal to pre-empt system detectable mismatches. However, due care has to be exercised as excessive real time validations can slow down the system. Moreover, hard-locked validations may miss certain valid corner scenarios. These may adversely impact revenue as well as ease of filing returns and therefore, a judicious use of validations is followed considering the above trade-off.”

48. On the issue of multiple registrations within GST Framework, Members during the Oral Evidence held on 4th October 2024, raised a pertinent issue in Hindi which can be roughly translated as under:

“The CAG has raised another important question regarding multiple registration and that too on the same PAN. There is different registration in different states. How is this possible? We open a bank account, or imagine we register a property, on the click of a single button, immediately we are able to see their details that where we are directors, where our property has been purchased, where our bank account exists, everything becomes clear. In Under Department of Revenue only, there is Income Tax Department, where

proper strictness is observed, why has Customs and Excise Department not implemented such measures”

49. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“...While it is one tax or we say it ‘One Tax One Country’ but at the same time there is a State tax and a Central tax. So, 30 State taxes are there. If a unit is actually doing business in all the 30 States, then, a registration in that particular state becomes necessary because the tax has to go to that State. That tax cannot go to the Centre. In some countries, what they did is that the tax was collected by the Centre only. I was in Russia, they collect the tax whether it is VAT or anything. Then, the tax is distributed amongst the States. In some formula, depending on whether the tax was collected, but that is not the system that we have adopted.”

50. On being asked what steps has the Ministry taken to mitigate risks associated with the use of third-party email services by Range Officers, which could compromise the security and tracking of important communications, the Ministry replied as under:

“DG systems under CBIC has provided 29000 All-in-Ones (AIOs) to the field formations for accessing various applications of CBIC hosted on the CBIC Data Center. The security of these machines on the network is monitored centrally. In order to mitigate the risks associated with the user of third-party email services all third-party emails have been blocked on the proxy solution used by DG Systems (Proxy solutions are services that can provide a layer of security and other benefits for computers and networks). Hence, no third-party email can be used in CBIC environment/network. CBIC has also implemented a content gateway solution to monitor and restrict internet access and block malicious links and sites.

Further, all the Customs & GST Field formations/Directorates/Officers have been directed to switch over to @gov.in/@nic.in E-mail IDs for all their official communication and advisories from agencies such as Cert-In (Computer Emergency Response Team) and NCIIPC (National Critical Information Infrastructure Protection Centre) are regularly circulated to the field formations for sensitization.”

51. The Ministry mentions the availability of "Comparison of Liability Report" to identify mismatches in returns when asked about examples of cases where this has led to actionable discrepancies being resolved the Ministry replied as under:

“Comparison of liability report provides the comparison between various returns like for outward tax liability between GSTR1 and GSTR3B and Excess ITC claim in comparison to availability in respective GSTR2A/2B:

1. Mismatch in Tax Liability vs. Tax Paid:

The report provides a list of taxpayers where there are mismatches or discrepancies between the tax liability reported in GSTR-3B returns and the tax liability declared in GSTR-1 returns. For example, DGARM report no 19 series is associated with Difference of tax liability between GSTR-1 and GSTR-3B and the action is taken by the field formations on regular basis. On verification of DGARM report No. 19y-1/2/3-22 of one of the taxpayers - M/s. New Raj Cement Agency (GSTIN-09AANFN8053H1ZS), difference between tax liability declared and tax paid for FY 2021-22 was found to be ₹ 17,31,506/-. The difference was due to late filing of GSTR-3B return for the month of March-2022. The same was filed on 11.05.2022. The taxpayer also deposited the interest of ₹ 1810/-, on late payment of GST paid through cash in April`2022.

2. Discrepancies in Sales or Purchase Declarations:

The report provides a list of taxpayers where there are mismatches or discrepancies between the input tax credit available as per GSTR- 2A/GSTR-2B returns compared to the input tax credit availed in their DGGST/13/2024-TECH-O/o Pr ADG-DGGST-HQRS-DELHI I/2366104/2024 GSTR-3B returns Further the said report is also helpful to check any self-declared dues pending which needs to be verified during the processing of refund claim filed under the category of “Excess balance in Electronic Cash ledger”. These reports are also helpful during the course of scrutiny of returns which were held in previous Financial Years and also for current Financial Year. for example, DGARM report no 20 series is associated with Difference of input tax credit between GSTR-2A/GSTR-2B and GSTR-3B and the action is taken by the field formations on regular basis. The recovery is made of ₹ 14.45 lakhs by Guwahati Zone in Aug-2024.

3. Inconsistencies in Input Tax Credit Claims:

One of the reports is available where the input tax credit is availed by the taxpayer even when its supplier has not filed required GST return nor paid the tax to the government and also where the supplier has reported wrongly in its GSTR-1 return resulting in mismatch of ITC claimed by the taxpayer. For example, on scrutiny of returns such as GSTR-2A, GSTR-3B and GSTR-9 returns by the field or range officers, it is noticed that the suppliers have not filed their GSTR-3B returns but the buyer or taxpayer has availed the input tax

credit. One of the cases, for example, M/s. Rajwansh Traders, (GSTIN-09AGEPG1773C1ZP) for FY 2018-19, the difference between tax liability declared and tax paid was found to be ₹1,88,947/-. The taxpayer was issued ASMT 10 on 28.02.2023. The taxpayer deposited short paid tax amounting to ₹ 1,88,948/-, along with interest amounting to ₹1,40,294/- vide DRC-03 debit entry No. DC0905230137363/DI0905230056468 dated 14.05.2023. The party was issued ASMT-12 on 01.06.2023.

4. GSTR-3B return not filed or tax not paid:

The report of GSTR-3B non-filers is furnished to the range officers on monthly basis that helps identify the taxpayer who have not filed their GSTR-3B returns or declared the tax liability in GSTR-1 but not filed the respective GSTR-3B return. For example, recovery has been made along with interest of ₹ 2.65 lakhs by Bhopal Zone.

5. Further, in cases where any discrepancy is noticed consequent to comparison of data reported in Tax Liability Chart available in GST BO, the same is communicated to field formations by DGARM and action is initiated to recover tax based on such mismatch. For example, when there is a mismatch in taxable value declared by taxpayer in GSTR-1 and GSTR-3B for any tax period the same is taken up for direct recovery as per provisions of Section 75(12) of the CGST Act from taxpayer as it is a self-assessed but not paid tax.

6. Based on the list of GSTINs identified under DGARM Red Flagged series (involving high revenue implication), Bhopal Zone have conducted verification of 426 GSTNs in FY 2024-25 (upto September,2024)resulting in recovery of ₹1173.19 Crores against detection of ₹ 1348.66 Crores.

As example, few cases, where based on the Comparison of Liability Report, proper SCNs were issued are below:

- (i) M/s. Khimji- K. D. & Sons Private Limited (GSTIN 21AABCK3660L1ZO), Bhubaneswar – SCN issued for ₹ 2.17 Cr for the FY 2017-18.
- (ii) M/s. Kandoi Estate Private Limited (GSTIN 21AABCK8856C2ZQ), Bhubaneswar – SCN issued for ₹ 65.67 Lakh for the FY 2017-18.”

52. The audit observed delays in following up on demand orders and assessments. On being asked about the mechanisms in place to ensure timely and effective follow-up on such cases, especially in high-risk cases flagged by DGARM, and how is the Ministry ensuring timely submission of these reports the Ministry replied as under:

“To address delays in following up on demand orders and assessments, the following mechanism has been implemented to ensure timely and effective follow-up, particularly for high-risk cases flagged by the Directorate General of Analytics and Risk Management (DGARM): DGARM reports are forwarded to the field formations for appropriate action. To manage the reports within a time-bound manner and effectively, the Antarang portal, allows for real-time monitoring of pending issues and / or any actions taken by field formations. For illustration, an officer from the GST Commissionerate has been appointed as the nodal officer responsible for managing DGARM reports and ensuring follow-up actions. This officer’s duties include downloading the most recent pending reports from the Online DGARM portal hosted on the Antarang CBIC portal and distributing these reports to the relevant ranges for further action. On receiving, the range officers initiate the actions with the necessary measures as outlined in the report’s guidelines. They then upload the completed Feedback forms back to the Antarang portal, marking the action taken with the approval from the Principal Commissioner/ Commissioner. Demand, Assessment & orders are issued within stipulated time to protect the Government revenue. DGARM reports including high risk cases are timely & promptly sent to higher formation. The units are issued letters, DRC-01A, SCNs as and when required, within stipulated time to protect the Government revenue. Issuance of SCN & Adjudication of the case is a time bound process as per the CGST Act 2017. Hence all the cases are being dealt with following the time line. The timely follow up is ensured by the divisional head with the DGARM Cell, Hdqrs. by providing periodic reports. Since, the details of each report is available on DGARM online portal, the same can be effectively monitored at different executive levels. Notably, the reports categorized as high risk or flagged as red alerts are prioritized by the range officers, and the feedback form is submitted with the endorsement and the approval from the competent authority. In such cases timely action is being taken which includes the issuance of SCN u/s. 73/74, issuance of OIO, regular monitoring of such cases for recovery of Arrears etc.”

II. OVERSIGHT FUNCTION

53. Out of a sample of 179 Ranges, Audit could not verify the monitoring mechanism on return filing in 113 Ranges as neither records nor data was provided to Audit. The monitoring mechanism in the remaining Ranges was deficient as MIS reports related to non-filers/late filers of normal and composition taxpayers were not available to the Range Officers to take timely action. The monitoring mechanism for recovery of demand from non-filers was deficient in 114 Ranges. In 95 Ranges where the relevant records related to issue of ASMT-13, DRC-07 and recovery

details were available, Audit noticed that action was not taken on all cases of defaulters. Further, in 35 Ranges, the process of issuing GSTR-3A (notice for defaulters who have not filed GST returns) and following it with ASMT-13 (Best Judgement Assessment order in cases where the taxpayers have not complied with GSTR-3A notices) and DRC- 07 (Summary of Demand order as a follow up of ASMT-13) was also not adhered to resulting in non-recovery of ₹ 128.58 crore from defaulters.

54. When asked in the absence of records and data, what monitoring mechanism has been opted for the Ministry in cases of return filing in 113 Ranges the Ministry replied as under:

“Case-wise comments will be submitted in the Annexure along with ATN.”

55. In 35 Ranges, the process of issuing GSTR-3A and following it with ASMT-13 and DRC- 07 was also not adhered to resulting in non-recovery of ₹ 128.58 crore from defaulters. When asked what steps are being taken by the Ministry to avoid recurrence of these issues in near future, the Ministry replied as under:

“Standard Operating Procedure to be followed in case of non-filers of returns vide Circular No. 129/48/2019 – GST dated 24th December, 2019 have already been issued by the Board to initiate the action after GSTR-3A and further following it with ASMT-13 and DRC- 07. These clarifications and guidelines were issued to clarify the issue and ensure uniformity in the implementation of the provisions of the law across field formations. The field formations are again being instructed to adhere to the said Standard Operating Procedure.

Further, case-wise comments will be submitted in the Annexure along with ATN.”

III. NON-ADHERENCE TO PRESCRIBED PROCEDURE FOR SUO-MOTO CANCELLATION

56. As per Section 29(2) of the Act, GST registration cannot be cancelled without a Show Cause Notice being given to taxpayer and a reasonable opportunity of being heard by the Tax Officer. It was noticed in 58 Ranges, out of sampled 179 Ranges, that out of 14,998 cases cancelled suo-moto, the Show Cause Notice (REG-17) had

not been issued in 6,353 cases. In the remaining 8,645 cases where SCNs were claimed to have been issued by Range officers, Audit could not verify this aspect as the MIS reports related to issue and disposal of REG-17 are not available in the registration module of the back-end system. An Illustrative case is : Ernakulam Range 1, under Kochi Central Tax Commissionerate, had cancelled registrations in 78 cases Suo-moto without issuing Show Cause Notices in form REG-17 during the period 2020-21. This was pointed out in September 2022 and Department's/Ministry's reply was awaited (January 2024).

57. Audit noticed in 58 Ranges, out of sampled 179 Ranges, that out of 14,998 cases cancelled suo-moto, the Show Cause Notice (REG-17) had not been issued in 6,353 cases. When asked in the absence of show cause notice on what grounds were these registrations cancelled, the Ministry replied as under:

“With respect to OBS Ref. No. 397971 on the para no.4.8.3.3.3, Cancellation of registration without Issue of SCN in REG 17, the contention of Audit that the Range Officer is capable of initiating suo-moto cancellation proceedings without issuing show cause notice in form REG-17 as required under Rule 22 of CGST Rules and further, issuing cancellation order in REG-19 without affording opportunity of hearing to the Taxpayer is not factual. The action available to the Range Officer in respect of a Registered Entity is to initiate suo-moto cancellation or update Authorised Signatory. Choosing the suo-moto cancellation opens out a window where offering a Personal Hearing on a future date is mandatory. Along with this the reason why such action is being initiated is to be conveyed. This data is transmitted to the Taxpayer who can view the same under the tab View Notices & Orders after they log in. The Range Officer does not get to view the Notice issued. As this is how the system is designed, the observation of Audit may be removed. The contention of Audit in OBS Ref. No. 397971 on the para no.4.8.3.3.3 is cancellation of registration without issue of SCN in REG 17. But the range officer has already issued the SCN as mentioned in given Annexure-II.”

58. As highlighted by audit, the MIS reports related to issue and disposal of REG-17 are not available in the registration module of the back-end system. When asked by when can this be expected to be rectified, the Ministry replied as under:

“MIS reports related to issue and disposal of REG-17 are available in the GSTN back office. MIS REG 01, REG 02 & REG 1.08 show the number of REG -17 issued, disposed and pending. REG 02 which shows number of REG-17 pending for disposal has been made available to CBIC in the registration module of the back-end system. The remaining reports shall also be made available to CBIC in a phased manner.”

59. Audit pointed out that Ernakulam Range 1, under Kochi Central Tax Commissionerate, had cancelled registrations in 78 cases Suo-moto without issuing Show Cause Notices in form REG-17 during the period 2020-21. When asked about the steps have being taken by the Ministry in this regard, the Ministry replied as under:

“As per proviso to Section 29(2) of CGST Act, 2017, the proper officer shall not cancel the registration without giving the person an opportunity of being heard. Further, Rule 22 (1) of CGST Rules, 2017 also provides that where the proper officer has reasons to believe that the registration of a person is liable to be cancelled under section 29 of CGST Act, he shall issue a notice to such person in FORM GST REG-17. Functionality has been provided in the GST portal wherein registration cancellation order in FORM REG-19 can be issued only after issuing a Show Cause Notice in FORM GST REG-17. Instructions are being issued to field formations in this regard.”

IV. INCONSISTENCIES IN GST RETURNS - CENTRALISED AUDIT

60. Audit analyzed GST returns data pertaining to 2017-18 as made available by GSTN. Rule-based deviations, and logical inconsistencies between GST returns filed by tax payers were identified on a set of 14 parameters such as mismatch of ITC availed between Annual returns and Books of accounts, short payment of interest, ITC mis-matches etc. Audit selected a sample of 10,667cases from amongst the top deviations/inconsistencies in each ofthe14 parameters for the year 2017-18.The audit queries were issued to the respective Ranges between January 2022 and May 2022 without further scrutiny of taxpayer’s records. Out of 8,220 cases of mismatches/inconsistencies, for which the department provided responses, Audit noticed deviations from the provisions of the Act in 1,268 cases (constituting 15 percent) involving a short levy of tax of ₹2,203.57 crore. Relatively higher rates of deviations were noticed in risk parameters such as short/non-payment of interest, ITC mismatch, excess Reverse Charge Mechanism (RCM) ITC availed, incorrect turnover declarations and short tax payments. Audit noticed data entry errors by taxpayers in 1,368cases (17percent) as the reasons for mismatches/inconsistencies in the return data. In 846 cases, constituting 10 per cent, the Department stated that it was examining the underlying deviation of ₹ 16,157.35 crore.

61. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“Two levels of mismatches have been pointed out. One is the mismatch pertaining to the ITC and the other is pertaining to the output tax liability in the monthly returns, which are submitted by the buyers and the sellers. This was a conscious decision taken at the beginning of the rollout of GST because it was a new mechanism. So, certain flexibility was given to the taxpayers. But, now over the year, we have further streamlined and strengthened the verification mechanism. Specifically, two new functionalities have been developed for this purpose, and those also we are trying to now implement in a phased manner. We are not doing it overnight so that it gives time to our taxpayers to become familiar with these changes that we are bringing in. What has been already done is that if a tax credit has been passed on by a seller, then an option has now been given to him to amend it till the end of the month. So, this is a GSTR-1A functionality that has been introduced, but after having amended those invoices, he cannot pay any tax which is less than his output tax liability. At present, this is only a functionality which has been made optional. Going forward, we will tighten it and we will not allow anyone to pay less taxes than the output tax liability that he is declaring for the buyers then to take the credit there on. We have not done it overnight, as I mentioned. We are doing it in a phased manner so that people become familiar and they start using this facility for their own benefit.”

62. Further, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“We have rolled out from 1st October, 2024 invoice matching. This is to enable the taxpayers, as of now -- again on an optional basis -- to match the invoices that they have received for the payments or for the goods that they have bought. So, gradually, going forward, even this will be made. Our intent is to make it mandatory going forward so that there is no issue of mismatch between the tax credit that is being given by a supplier and that is being availed by a buyer. So, the mismatch between the GSTR-3B and the GSTR-1 and the GSTR-2B and the GSTR-3B on the other hand, both these mismatches, over a period of time, will disappear.”

63. When asked what efforts are being taken to simplify the GST return filing by tax payers, the Ministry replied as under:

“In order to assist taxpayers in filing their returns and minimizing human errors, GST return filing process has been continuously improved.

(i) The GST Portal now provides a pre-filled GSTR-3B form, where the tax liability is auto-populated from the declared supplies in GSTR-1/ GSTR-1A/ IFF, while the Input Tax Credit (ITC) is auto-populated from GSTR-2B. A detailed system generated pdf of the auto populated GSTR-3B is also provided to all the taxpayers.

(ii) Now, taxpayers also have a facility to amend their incorrectly declared outward supplies in GSTR-1/IFF through GSTR-1A, allowing them an opportunity to correct their liabilities before filing their GSTR-3B.

(iii) Additionally, to manage inward supplies and ensure accurate ITC claims in GSTR-3B, taxpayers have the option to take informed actions of accept/reject/pending on inward supplies via the Invoice Management System (IMS) which is now available to the taxpayers.

(iv) An “Electronic Credit Reversal and Re-claimed Statement” has been made available to the taxpayers from the return period of August 2023, which enables the taxpayer to view the details of ITC reversed and ITC re-claimed for each return period and the balance available, such that the ITC re-claimed in GSTR-3B is not more than the ITC reversed.

(v) To assist taxpayers in correctly reporting Reverse Charge Mechanism (RCM) transactions in GSTR -3B, a new statement called “RCM Liability/ITC Statement” has been made available from August 2024 which will ensure that ITC availed on RCM is not more than the tax discharged on RCM by the taxpayers.”

64. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“We have kept the registration process very simple so that people can actually apply from the comfort of their homes, and without coming to the tax office they can take the registration. Now, however, after we found that there were a lot of bogus forms which had mushroomed and they were claiming fake ITC without actually any supply of goods or payment of taxes, we did a pilot first of all in Gujarat where the risky taxpayers were subjected to a biometric registration. So, they have to come to the centres to get their biometrics registered because what we found was that many of these people who got themselves registered were in name of someone else. They were not the actual people. The actual people who were doing business were someone and the registration, however, was in the name of someone else. They would pass on the credit, and when we found out that the tax has not actually been paid and when we visited them, we found that they were either not existent at those places and even the people behind them were not the actual ones. They were very poor people, indigent people and in some cases even handicapped people who could never have done any kind of a business.”

65. When asked if efforts were being undertaken to educate the taxpayers on how to fill data in the system, the Ministry replied as under:

“Tutorial videos are being produced regularly by CBIC on GST & Customs processes. Currently following tutorial video explaining step by step process of Customs & GST are available in public domain (CBIC Youtube channel ‘CBICINDIA’) for reference and educational purposes of taxpayers and stakeholders :

- (i) Registration under GST (available in Hindi, English, Punjabi, Gujarati, Marathi, Kannada, Telugu, Tamil, Malayalam, Odia, Bengali & Assamese)
- (ii) Composition Scheme under GST (available available in Hindi, English, Punjabi, Gujarati, Marathi, Kannada, Telugu, Tamil, Malayalam, Odia, Bengali & Assamese)
- (iii) e-Invoicing (available in Hindi, English, Punjabi, Gujarati, Marathi, Kannada, Telugu, Tamil, Malayalam, Odia, Bengali & Assamese)
- (iv) GSTR-1,2b & 3b (GST Returns) under GST (available in Hindi & English)
- (v) Suspension and Cancellation of GST Registration and Revocation thereof (available in Hindi & English)
- (vi) Customs Baggage Rules (in English)
- (vii) How to send and receive parcel (by an individual) from foreign countries (available in Hindi & English)
- (viii) Customs Authority on Advances Ruling (available in Hindi & English)

Currently CBIC is also in the process of making following tutorial videos :

- (a) ‘Biometric Aadhar Authentication under GST’
- (b) ‘Automation of Refunds’
- (c) ‘IGC₹ Rules 2022’
- (d) ‘Facility of Drawback & e-Scripts for Exports through Courier’

All the videos will be made available in the public domain for taxpayers information & education.

Many Print advertisements in this regard were released in the newspaper dailies across the country informing the taxpayers regarding the due dates, opting for QRMP and Composition Scheme, important legislative changes etc.

CBIC also have a strong presence on various Social Media Platforms like twitter (@cbic_india with ~624.9k followers), Facebook (@CBICIndia with ~412k followers), Instagram (@CBICIndia ~98.2k followers), Whatsapp (@CBICIndia ~76k followers) and Youtube (@CBICIndia ~35.1k subscribers). These platforms provide CBIC with direct real time 2 way communication with the taxpayers. Regular messages forwarded through these platforms include

due date reminders, legislative updation and any changes made by CBIC/GSTN in the data filing through the GST/Customs Portals. In F.Y. 2024-25 alone till date more than 250 creatives in this regard have been shared on social media platforms.

CBIC also regularly conducts webinars in coordination with various trade associations, on different topics pertaining to GST and Customs to educate taxpayers/stakeholders. During the last two years, Zonal Units of this Directorate conducted 102 webinars and during the current financial year 21 webinars have been conducted. Common topic which have been covered in these webinars are:

- (i) E-invoicing process in GST and Technical/System related aspects in GST e-invoicing
- (ii) E-invoicing and GST updates(in Kannada)
- (iii) E-invoicing (in Malayalam)
- (iv) Recent initiatives GST for MSME sector
- (v) Filing/Revising Transitional Credit Statements TRAN-1/TRAN-2
- (vi) GST Annual Returns-Nuances & Requisites
- (vii) RCM under GST - Provisions and Practices
- (viii) Common errors in DRC-3
- (ix) Maintenance of Accounts and other Records under GST from taxpayers prospective
- (x) Important points to consider for closing of Accounts with respect to GST
- (xi) Invoice Management System

These above webinars are also available on CBIC's Youtube channel for public information and education.”

66. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 further added as under:

“We are doing outreach programmes. We are doing a number of awareness programmes. The State Governments as well as the Central Government together are doing outreach programmes. We have separate verticals for it, called the Directorate General of GST. Recently, now, they are doing sector wise SAMWAD programmes. Rajasthan Government did SAMWAD programmes in various cities. Similarly, now in various cities, we are going to do SAMWAD programmes where we will call the tax payers and we will sit down with them across the table to understand their difficulties and tell them the law and how we want to implement them. ”

67. Audit findings on Discharge of tax liability, Audit had recommended that Department may review the applicability of concessions related to works contract services where sub-contractors are executing Government projects.”

68. When asked whether there had been cases where concessions have been provided to sub- contractors even though they were not eligible for that, the details thereof for the last three years and efforts being undertaken to recover the concessions provided from such beneficiaries the Ministry replied as under:

“Observation of C&AG relating execution of works contracts for Government projects as available to main contractors is not correct as supply of works contract services in respect of a road bridge, tunnel or terminal for road transport for use by general public attracted GST @ 12% irrespective of the fact whether it was supplied directly to Government or not. Further, post 18.07.2022, the GST rates on construction of roads, bridges etc. or works contract supplied to Central and State Governments has already been increased from 12% to 18%. The assessment of GST on sub-contractors is being done in keeping with above stated provisions.”

V. DETAILED AUDIT

69. Audit had mentioned that of the 1,103 selected cases for detailed audit which involved field visits for verification of records available with the jurisdictional Executive Commissionerates and Audit Commissionerates. In spite of requisitions and follow up, the jurisdictional Ranges did not produce basic records such as financial statements, GSTR-9C, GSTR-2A etc. in 67 cases out of the sample of 1,103 cases. In 373 cases, the Department did not produce the corresponding records such as the supplementary financial ledgers, invoices, agreement copies etc. required for examining the causative factors for mismatches of ITC and tax liability.

70. When asked the reasons for non submission of basic records such as financial statements, GSTR-9C, GSTR-2A etc. in 67 cases out of the sample of 1,103 cases the Ministry replied as under:

“Case-wise comments will be submitted in the Annexure along with ATN”

71. On being asked by when is the Ministry planning to submit the corresponding records such as the supplementary financial ledgers, invoices, agreement copies etc. required for examining the causative factors for mismatches of ITC and tax liability in the 373 cases highlighted by the Audit, The Ministry replied as under:

“Case-wise comments will be submitted in the Annexure along with ATN. Out of the 1,036 cases that were audited either fully or partially, Audit observed 657 compliance deficiencies with a revenue implication of ₹468.96 crore. The main causative factors were availing of ineligible and irregular ITC, misclassification of supplies, exclusion of supplies for taxation, under valuation of supplies and incorrect discharge of tax under RCM”

72. On being asked that while Audit had highlighted availing of ineligible and irregular ITC, misclassification of supplies, exclusion of supplies for taxation, under valuation of supplies and incorrect discharge of tax under Reverse Charge Mechanism, why were these issues not detected by the internal monitoring mechanism of the Department, the Ministry replied as under:

“The issues mentioned herein are being regularly highlighted through departmental audit. Several paras involving substantial government revenue are being detected and amount recovered under these issues. It is pertinent to mention here that such paras are also brought into public domain for creating necessary awareness among the audit officers as well as the Industry/ Trade via the GST Audit Bulletin, published by DG Audit on quarterly basis.”

73. To a specific query regarding the steps being taken by the Ministry to address these specific issues as highlighted by the Audit, the Ministry replied as under:

“The issues highlighted by the audit are being regularly reported by the audit Commissionerates. The forum of Monitoring Committee Meeting (MCM) is the primary institution to discuss such issues. The quarterly GST Audit bulletin by DG Audit is another step to generate awareness about such issues. Moreover periodical conferences and meetings are held involving DG Audit, Zonal units, Chief Commissioners and the Audit Commissioners whereby such divergent issues are given special focus. Moreover, the GST audit is being done on the basis of risk score and risk perception of the taxable persons.”

D) TRANSITIONAL CREDITS UNDER GST

74. Audit highlighted that 38% of 954 cases that is 362 claims involving transitional credit claims of ₹ 2231 crore, were not produced for audit security deposit supplementary audit. These cases were produced after completion of audit. Para 5.5 Records pertaining to claims amounting to ₹ 7272.45 crore, spread over 1106 cases were not furnished to Audit during their supplementary audit exercise. Audit has reported that in 238 claims involving transitional credit claim of ₹ 2029.85 crore and partial records were produced during the supplementary audit with credited documentation such as duly paid documents, stock statements and asset ledges missing.

75. On being asked pointed questions in this regard such as what steps have been taken by the Ministry to resolve the issue and how does the Department ensure that future credits have access to complete records, the Ministry stated as under:

“Case-wise comments will be submitted in the Annexure along with ATN.”

76. To a specific query regarding adequacy of the current verification and audit mechanisms under Section 140 of the CGST Act 2017 and Rule 117 of the CGST Rules 2017 in light of the emerging issues, the Ministry replied as under:

“The Internal Audit has been making paras in r/o Section 140 of the CGST Act, 2017 and Rule 117 of the CGST Rules, 2017. The GST Audit Manual 2019 vide Annexure- XIII, Point 3 provides for TRAN-1 verification at sub-point 10, which adequately address the issue. As per Section 140 of the CGST Act 2017 read with rule 117 of CGST Rules, 2017, provisions related to availment of Transitional credit and availment of CENVAT Credit are provided. A detailed guidance note vide F. no 267/8/2018-CX dated 14.03.2018 was issued to the field formations to aid and assist in verification of transitional credit. Further, in light of the order of the Hon’ble Supreme Court in the Union of India vs. Filco Trade Centre Pvt. Ltd., SLP(C) No. 32709- 32710/2018, order dated 22.07.2022 & 02.09.2022, CBIC issued Guidelines for verifying the Transitional Credit and Modalities of coordination between central tax authorities and state tax authorities vide Circular No. 182/14/2022-GST Dated the 10th of November, 2022. As availment of Transitional credit was a one-time measure, on transition from existing laws to GST and as detailed guidelines/ instructions have already been issued by the Government, it is felt that there are adequate provisions available for verification and audit of transitional credit under CGST Act, 2017.”

E) DEPENDABILITY OF GST DATA MANAGED BY THE GOODS AND SERVICES TAX NETWORK

77. The Audit had stated that in certain cases, discrepancies between the Input Tax Credit (ITC) returning monthly returns (GSTR-3B) and the annual returns (GST-5) were as high as 13625%. These discrepancies accurate despite the fact that GSTR-9 as supposed to auto-populated non-editable fields from GSTR-3B, indicating significant system deficiencies in the GSTN.

78. On being asked that given the magnitude of these errors, how can the Department persist on using a system that produces such extreme variations? Further, given that GSTR-9 is designed to auto-populate from GSTR-3B, how can the system justify discrepancies in 33381 returns over a period of four years, with a difference as high as 16, 622 crores in 2020-21? And considering that similar discrepancies were highlighted in CAG's Audit Report No. 57 of 2022, why has the Ministry failed to act decisively in attending these over an extended period the Ministry replied as under:

“The Audit has pointed out mismatch of ITC in Table 6A of GSTR 9 and Table 4A of GSTR 3B. ITC in Table 6A of GSTR 9 is auto populated from Table 4A of GSTR 3B and is non editable. Auto-population of annual return of all the taxpayers for all States takes approximately 2 weeks and it involves processing of all monthly returns and aggregating them into Annual Return. This process is completed by intensive processing of millions of records in batches and sometimes batch processing topologies can result in mismatches due to technical glitches in the number of records. Such failed records are subsequently identified and re-processed by triggering reposting on the request of the taxpayers. Now the auto-population process has been redesigned for optimum long running jobs so that they can finish it is shorter time and thereby reducing the overall error rate. It has been decided from financial year 2023-24 that the redesigned process for auto population of GSTR-9 shall be once a year. The results of this change will be analysed after the last date (31.12.2024) of filling GSTR 9 for FY 23-24 is over. Further, at present ITC accounting or liability accounting is done as a continuous ledger and therefore any monthly return can have ITC of the past financial year also. Once invoice level accounting of ITC is built through IMS (Invoice Management System), this issue is expected to be addressed.”

79. The audit report highlights persistent discrepancies in ITC (Input Tax Credit) auto population access multiple years, including a difference of ₹ 12046 crores in

2017-18 alone. On being asked that given that GSTR-9 (the annual return considering ITC claims) is designed to auto-populate from GSTR-2A (the dynamic credit statement from supplies' GSTR-1 filings), why has the Ministry not implemented strict controls to ensure the accuracy of this process the Ministry replied as under:

“This issue will be finally resolved starting from GSTR 9 for the FY 2023-24 as table 8A of GSTR 9 shall be populated from GSTR 2B instead of GSTR 2A. While GSTR 2A is a dynamic statement which changes over time, GSTR 2B is a static document which does not change. Also, invoice level accounting of ITC through IMS(Invoice Management System) would address the issue of better matching of ITC. “

80. Audit has pointed out significant mismatch in outward tax liability between GSTR-9 (the annual return) and GSTR-3D (the monthly return). In 3.35 lakh cases, GSTR-9 liabilities either exceeded or fell short of GSTR-3B liabilities, with discrepancies of up to 1,86,99 % . When asked what systematic check has been put in place to address the massive discrepancies and why was this allowed to persist without immediate rectification or accountability, the Ministry replied as under:

“In terms of GST Law, a taxpayer has the option to amend/ add the supplies of a Financial Year, till 30th November of subsequent Financial Year in their GSTR 3B. Therefore, GSTR 3B is a consolidated return, where one cannot differentiate between the liabilities paid for the current year vs the liabilities paid for the previous financial year. However, GSTR 9 is to be prepared for a particular financial year. Therefore, in the majority of cases there will be a difference between the liability declared through GSTR 3B vs liability declared in GSTR 9 for a Financial Year. In following situations, there can genuinely be higher tax liability in GSTR 9 as compared to GSTR 3B,-

- (i) In case, a taxpayer misses to report any liability in GSTR 3B, he can declare it in table 4 of GSTR 9 and pay through DRC03.
- (ii) In case, any Credit Note is reported in the GSTR 3B of a financial year but that Credit Note pertains to previous financial year. In such cases, while filing GSTR 9 this Credit Note will be excluded from the Table 4 of GSTR 9. Accordingly, the liability as per GSTR 9 in such cases will be higher than the liability appearing in GSTR 3B.

Further, in the following situations, there can genuinely be lower liability in GSTR 9 as compared to GSTR 3B –

- (i) The supplies of previous year are reported in GSTR 3B of a Financial Year. Such supply will not be reported in Table 4 of GSTR 9.

Accordingly, the Tax payable as per GSTR 9 shall be lesser than the Tax paid as per GSTR 3B.”

81. Audit found that GSTR-9 did not capture additional liabilities that taxpayers were required to declare, leading to a discrepancy in tax payments. When asked given that these discrepancies have returned in significant unpaid liabilities, including ₹ 32.61 crore were outstanding, how does the Ministry plan to ensure that future returns will accurately capture these amounts further regarding action against Taxpayers who have delayed payments for upto 21 months, the Ministry replied as under:

“As discussed in answer to previous question, in terms of GST Law, a taxpayer has the option to amend/ add the supplies of a Financial Year, till 30th November of subsequent Financial Year in their GSTR 3B. Therefore, GSTR 3B is a consolidated return, where one cannot differentiate between the liabilities paid for the current year and the liabilities paid for the previous financial year. However, GSTR 9 is to be prepared for a particular financial year. Therefore, there will be a difference between the liability declared through GSTR 3B and the liability declared in GSTR 9 for a Financial Year. “

82. Between 2017-21, 7.5% of GSTR-9 returns had tax paid accounts have lower than the declared tax payable and GSTR-9 do not return additional payments made through DRC-03 challans (for making payment for additional tax liability). On being asked whether this had led taxpayers to under-report their tax obligation and what steps has the Ministry taken to address this omission, the Ministry replied as under:

“There has been no omission. As discussed in answer above, in terms of GST Law, a taxpayer has the option to amend/ add the supplies of a Financial Year, till 30th November of subsequent Financial Year in their GSTR 3B. Therefore, GSTR 3B is a consolidated return, where one cannot differentiate between the liabilities paid for the current year and the liabilities paid for the previous financial year. However, GSTR 9 is to be prepared for a particular financial year. Therefore, there will be a difference between the liability declared through GSTR 3B and the liability declared in GSTR 9 for a Financial Year.”

83. Audit has cited an illustration of a case wherein a taxpayer has paid an amount of ₹ 0.72 crore in 2018-19 as per GSTR-3B. However, as per GSTR-9 his outward tax liability under CGST and SGST totaled to ₹ 7.15 crore. This difference of 900 per cent was due to data entry error in GSTR-9. The Ministry had not replied

by January 2024. When asked to furnish the explanation and to provide details of any post facto data analysis being used by the Ministry to identify discrepancies in tax paid, the Ministry replied as under:

“It is verified that from the GSTR-3B , GSTR-9C and statement Profit & Loss that the turnover of the taxpayer is ₹ 14,30,17,792/- (matching in GSTR-3B and GSTR-9) and tax liability is ₹ 71,50,890/- (CGST ₹ 35,75,445 /- & SGST ₹ 35,75,445 /-) and the difference is only due to the typographical error.”

84. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“Validation and cross-checks have been put so that the tax payer is alerted at the right time and to pre-empt any kind of detectable mismatch. At the same time, we are conscious that we do not want to put too many cross-checks also because then the system can become very slow.”

85. During field verification of 10 sample cases with difference between tax payable and tax paid as per GSTR-9, ranging from 11% to 104945 % and in terms of GST amount ₹ 1 crore to ₹ 48 crore, it was found that the differential liabilities of ₹ 54.07 crore was paid fully in five cases partially tax liability of ₹ 5.39 crore in five cases and no differential liability of ₹ 5.32 crore was paid in five cases. When asked if the system had now been corrected, the Ministry replied as under:

“In case, taxpayer misses to report any liability in GSTR 3B, he can declare it in the table 4 of GSTR 9 and pay through DRC03. Also, the Tax payable under Table 9 of GSTR 9 has been kept editable so that taxpayer can report such tax liability. Tax paid is auto populated from Table 6.1 of GSTR 3B and non-editable. and therefore, there can be a difference between the liability payable and liability paid and the system allows the taxpayer to report the same in GSTR 9 and pay tax on the same.”

86. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“...the backend processes relating to issue of notices to non-filers of GSTR-3B, which is the GSTR-3A notice; identification of mismatches in returns; and scrutiny of returns, which were taking place in the GST application. Since the backend operations have now been shifted to GSTN BO since June, 2024,

the automation of these aforesaid backend processes is now available in the GSTN BO. So, the issue of ASMT13 has also been automated in the GSTN BO. Similarly, the facility of issue of DRC 01, DRC-03, recovery proceedings, appeal, etc. all are available in the GSTN BO and the same are fully operational.”

F) DATA ANALYSIS OF COMPOSITION LEVY SCHEME DATA

I. MISMATCH BETWEEN DECLARED SALES AND TAXES PAID

87. Audit had pointed out several cases of irregularities in Section 7.9.6. The Audit report had found 70 cases where taxpayers reported unrealistic sales in their CMP-08 forms. One example in the report shows a taxpayer from the Kolkata South Commissionerate (GSTIN: 1XXXXXXXXXXXXXY) reporting sales of ₹2,477,710,123.88 in their CMP-08 form (form for simplified return for small taxpayers under the Composition Scheme, who are not required to maintain detailed records) for April-June 2020, but they only paid ₹24,776 in tax. The Audit report shows that the back-end system also accepted these unrealistic sales values without flagging them as a problem.

88. On being asked as to why this issue was not detected by the system and asked to explain this huge gap between the reported sales and the small amount of tax paid and why the same mistake wasn't caught by the system right away, the Ministry replied as under:

“Verification of CMP-08 return for the period April-June, 20, it is seen that actual outward supply of ₹ 24,77,710/- and CGST @ 0.5% of outward supply i.e. 12,388/-. The taxpayer inadvertently put the outward supply value i.e. 247771012388/- instead of ₹ 24,77,710/- . In this regard clarification sought from taxpayer, but taxpayer has not yet submitted reply. Subsequently ASMT-10 has been issued by Range Officer for the F.Y. 2020-21. CMP-08 Form initially did not have any validation with regard to the self-assessed liability declared and the annual turnover. However, this validation was introduced in Aug 2021. Since then, an error message is displayed whenever the output liability declared via CMP-08 by a taxpayer crosses the threshold limit in a financial year and CMP-08 is not allowed to be submitted. As part of a risk-based approach, periodical deployment of analytics tools for analysis on the basis of available third-party data is already there. It has been ensured that possible validations in situations provided under the law such as blocking a

composition taxpayers from filing Form CMP 08 (return for payment of tax by composition taxpayers) on reaching threshold turnover of ₹ 1.5 crore (₹ 50 lakh in case of supplier of services), showing a list of such taxpayers to jurisdictional tax officers so that they may issue notice to them for denial of composition scheme to them, are in place. Similarly, the System does not allow a manufacturer of notified goods, namely, Pan Masala, Tobacco and tobacco products, Ice cream, aerated drinks, to take registration as composition taxpayer. The System also ensures that all registered entities having the same PAN number are either registered as composition taxpayers or regular taxpayers. If one entity opts out of composition scheme and becomes a regular taxpayer, all the other registrations having same PAN number are also converted to regular taxpayer. Similarly, if one entity is registered as regular taxpayer, any other entity having same PAN is disabled from opting for composition scheme. Apart from the validations on statutory threshold on annual turnover of CLS taxpayers which have already been incorporated as discussed above, reports are available in the GSTN analytics that flag outward supply of a composition supplier arising out of EWBs. The report also shows the income tax paid by him. Thus, any CLS taxpayer that suppresses outward supply to avail benefit of CLS, but has higher outward supply as per EWB, income tax payment can be detected by the tax officers. Further, Comprehensive Analytics on EWB portal have a report C7 (from 2019) which flags composition taxpayers with turnover of more than ₹ 1.5 crore in EWBs for the year.”

89. To a specific query regarding Another case from the Bolpur Commissionerate (GSTIN: 1XXXXXXXXXXXXXC) which showed a taxpayer reporting sales of ₹6,105,271,052.7 for January-March 2020, but paying only ₹6,105 in tax, when asked why the taxpayer hadn't been held accountable for reporting such unrealistic sales, the Ministry replied as under:

“The matter has been examined thoroughly by reconciliation of their book of Accounts/ITR acknowledgment receipt and confirmed their total turnover of ₹ 23,57,770/- only for the FY 2019-20 whereas filed the return for the quarter ending March 2020 showing outward supply to the tune of ₹ 61052710527/-. The taxpayer is engaged in the trading of “Drugs & Medicine” business in a suburban area and the actual outward supply would be ₹ 6,10,527/- for which they paid the appropriate tax of ₹ 6105/-. The taxpayer inadvertently put the outward supply of ₹ 61,05,27,10,527/- instead of ₹ 6,10,527/- which is a typographical error.”

90. The audit mentions that a taxpayer from the Siliguri Commissionerate (GSTIN: 1XXXXXXXXXXXXX3) reported sales of ₹1,210,500,607.5 (nearly 121

crores) for October-December 2020 but only paid ₹12,150 in tax. When asked why the system could not accurately reflect the tax and why the Ministry did not put checks in place to compare the reported sales with the correct tax amount and what steps are being taken to make sure this kind of error doesn't happen again, the Ministry replied as under:

“CGST-Siliguri: On verification, it has been observed that the actual taxable outward supplies (including exempted supplies) during the quarter October, 2020- December, 2020 stands at 12,15,000/- and the taxpayer have erroneously quoted the same as ₹12,10,50,06,075.00. Further, it is ascertained that they have paid the appropriate tax on actual outward supplies.”

91. To a specific query regarding, so many taxpayers reporting unrealistic sales but paying very low taxes and what actions have been taken by the Ministry to hold these taxpayers accountable, the Ministry replied as under:

“Directorate General of Goods and Service Tax Intelligence (DGGI) and CGST formations are involved in the detection of GST evasion. Such detection is done on the basis of risk analysis as well as collection of specific intelligence. Total number of GST offense cases for the period from July 2017 to June 2024 is given in the table below”:

Total Number of GST Offence Cases				
Period: July 2017 to June 2024				
Period	No. of Cases	Detection (In Rs. Cr.)	Voluntary Deposit (In Rs. Cr.)	No. of Arrest
2017-18 w.e.f July 2017	424	1216	394	3
2018-19	7368	37946	19216	191
2019-20	10657	40853	18464	231
2020-21	12596	49384	12235	460
2021-22	12574	73238	25157	342
2022-23	15562	131613	33226	190
2023-24	20582	230332	31758	223
2024-25 (upto June 2024)	6025	38871	5937	34
Total	85788	603453	146387	1674

92. Observing a news report the Committee observed that the Central Board of Indirect Taxes and Customs (CBIC) had brought out common norms for central and state level Goods and Services Tax (GST) officials to audit banks.

93. When asked, what are the benefits expected to be accrued by the common audit plan and whether such plans are to be rolled out for other sectors also, the Ministry replied as under:

“Since every taxpayer under GST is a separate entity, with a separate registration, its audit is conducted as per specific audit plan, which is based on the taxpayer centric issues. However, presently ‘Thematic and Multi-locational Co-audits’ are being conducted by the audit formations of the Centre and the States as per Chapter 8 of the All-India Model GST Audit Manual, 2023. The mechanism for such audit is prescribed in the said manual prepared by the Committee of Officers constituted by the GST Council Secretariat, comprising officers from the Centre, States, GSTN, DGARM as its members. The All India Coordination Committee (AICC) of GST Council on Thematic Audits aims to promote greater coordination and collaboration between Centre and State officers during thematic audits. In case of thematic/ sector-specific audits, the Common Minimum Audit Plan is prepared as a guiding document for the audit officers to have a basic common knowledge of the issues pertaining to the sector. The Common Minimum Audit Plan is expected to serve as a critical resource for both Centre and State GST officers involved in conducting audits within a particular sector. These collaborative efforts and the guidance provided by the Common Minimum Audit Plan will lead to more effective operations and improved outcomes in GST audits within the sector as well as convergence in GST audit between the Centre and State GST administration. Presently, thematic audit of banking sector is in progress by the audit officers of the Centre and the States. As regards the rolling out of similar common audit plans for other sectors, it is to inform that the competent authority to take any decision in the matter is the All India Coordination Committee (AICC) of GST Council. As per news report in the Business Standard dated 17 August, 2024, The CBIC has asked GST officers conducting audit to refer to the board those cases where they face issues of conflicting interpretation of provisions of the tax law.”

94. On being asked as to how and why did the need for issuing such instruction(s) arise for CBIC and how is it expected to reduce unnecessary litigation and compliance costs, the Ministry replied as under:

“CBIC issues circulars and instructions time to time, on various issues to ensure uniformity and clarity to the field formations. The need for issuing such instructions arises from the fact that, there should be uniformity in application of law across field formations. The uniformity and unambiguous application of law increases the compliance and thereby lowering the compliance cost and

unnecessary litigation cost as well. Evolving nature of GST laws leading to ambiguities sometimes results in inconsistent enforcement by Central and State authorities. Overlapping jurisdictions, investigations, and prolonged assessments sometimes leads to taxpayer grievances and compliance burdens. To address these challenges, standardized instructions were issued to ensure uniform enforcement, prevent overreach by officials, and promote voluntary compliance. By clarifying grey areas, these guidelines are expected to reduce disputes, minimize unnecessary litigation, and ease the burden on courts. They are also expected to help businesses to save on compliance costs by streamlining processes and ensuring transparent investigations. As per news report in the Financial Express dated 30 September, 2024, the Central Board of Indirect Taxes and Customs (CBIC) is likely to introduce a mechanism to track reverse charge liability of businesses under the Goods and Services Tax (GST) framework to improve compliance, and ensure that excess input tax credit (ITC) is not availed.”

95. To a specific query regarding whether the CBIC faces the issue to excess input tax credit frequently and how does the above measure seek to resolve the issue and reduce its occurrence, the Ministry replied as under:

“To assist taxpayers in correctly reporting Reverse Charge Mechanism (RCM) transactions in GSTR -3B, a new statement called “RCM Liability/ITC Statement” has been made available from August 2024 which will ensure that ITC availed on RCM is not more than the tax discharged on RCM by the taxpayers. It is mentioned that:

- (i) As per Section 9(3) and 9(4) of the CGST Act, 2017, the recipient is required to pay tax under reverse charge on the inward supply of notified goods or services, including imports.
- (ii) The tax liability under the reverse charge is reported in Table 3.1.d of the FORM GSTR 3B and the same is required to be paid in cash and ITC on the same can be availed only when the tax has been paid.
- (iii) Further, the ITC on such RCM supplies is claimed through Table 4A2 and Table 4A3 of GSTR 3B.
- (iv) The “RCM Liability/ITC Statement” alerts the taxpayers if the ITC being availed on such supplies is more than the sum of tax on such supplies reported in the same tax period and any balance of ITC on such supplies, against which tax was discharged in earlier tax periods.

As per news report in the Deccan Herald dated 24 September, 2024, CBIC officers have detected around 10,700 fake registrations under the GST,

involving evasion of ₹ 10,179 crore in the ongoing all-India drive against fake companies set up to defraud the exchequer.”

96. When asked what are the systemic flaws that need to be corrected by the CBIC to avoid tax evasions, considering the scale of evasion being detected the Ministry replied as under:

“...The matter has been examined and it is to inform that the department has taken the following structural measures to avoid evasions:-

(i) Rolling out of bio-metric based Aadhaar authentication on All-India basis: The Central Government has issued Notification No. 13/2024-Central Tax dated 10.07.2024 for rolling out the biometric based Aadhaar authentication of registration applicants on pan-India basis in a phased manner. Biometric based Aadhaar authentication of registration has already been implemented in 13 States. Further, vide Notification No.12/2024-CT dated 10.07.2024, a proviso has also been inserted in rule 8(4A) of CGST Rules (to be notified from a date) to provide that if the applicant does not opt for Aadhaar authentication, he will be required to visit GST Sewa Kendra for photo capturing and document verification. This will strengthen the registration process in GST and will help in combating fraudulent input tax credit (ITC) claims made through fake invoices.

(ii) Implementing Sequential Filing of Form GSTR-1 and filing of Form GSTR-1 prior to Filing of Form GSTR-3B. From October-2022, tax period onwards, filing of Form GSTR1 has been made sequential. The system would not allow filing of Form GSTR-1 until the GSTR-1 for the previous return period is filed. This applies to both Monthly and Quarterly filers. In addition, w.e.f. October-2022 tax period onwards, filing of Form GSTR-1 before filing of Form GSTR-3B for a particular tax period has been made mandatory on the portal. This applies to both Monthly and Quarterly filers.

(iii) Special All-India Drive against fake registrations.

From time to time, Special drives against fake registrations have been launched, involving Central and State GST formations, to weed out fake registrants and to take further remedial action to weed out these fake billers from the GST eco-system and to safeguard Government revenue. A special All-India drive was launched by all Central and State Tax administrations during the period from 16th May 2023 to 14th August 2023 for verification and detection of suspicious/ fake registrations and for taking timely remedial action to prevent any further revenue loss to the Government. Further, a second

Special All-India Drive was launched by all Central and State Tax administrations from 16th August 2024 to 30th October 2024 to detect suspicious/ fake GSTINs and to conduct requisite verification and further remedial action.

(iv) Directorate General Analytics and Risk Management (DGARM) of CBIC is providing intelligence inputs and carry out big data analytics to assist the tax officers for better policy formulation and nabbing evaders. The DGARM uses internal and external sources for detailed data mining to generate actionable inputs.

(v) The enforcement wings of CBIC keep a watch over avilment of take ITC and consequential claims of refund on account of exports. Further, new registrants showing anomalous behaviour in E-Way bill activity are also flagged before the return cycle and shared with State and Centre GST formations for necessary action. Actionable intelligence is also being generated incorporating new registrants whose inward/ outward supply chains are anomalous as well as their entire chain of suspected fake ITC, upto the ultimate beneficiary.

(vi) Restrictions on utilization of input tax credit (ITC) available in the electronic credit ledger, has been introduced w.e.f. 26.12.2019, in cases where credit has been fraudulently availed or is ineligible.

(vii) Offence of fraudulent avilment of ITC without invoice or bill is cognizable and non bailable offence.

(viii) Beneficiary, who retains benefit or at whose instance a supply has been made without the issuance of an invoice, or invoice has been issued without supply, or excess ITC has been availed/distributed, has been made liable for penalty similar to that of actual supplier/recipient.

(ix) For calculating the amount of the refund of accumulated input tax credit on zero rated supplies, definition of turnover has been changed to cap value of exports at 1.5times of domestic supply.

(x) Blocking of E-way bill, when a taxpayer fails to file GSTR-3B/GSTR-1 for two or more consecutive months on the GST portal, the same will be communicated to the e-way bill system and block the GSTIN. The GSTIN of such blocked taxpayers cannot be used for generating e-way bills either as consignor or consignee. Furthermore, in order to prevent misuse of E-way bill system by recycling of EWBs, the e-way bill validity has been restricted w.e.f. 01.01.2021 to one day for distances up to 200 Kms (from 100 Kms per day earlier). Provisions have also been made to restrict generation of e-way bill for

taxpayers whose registration has been suspended under provisions of the Act.

(xi) Returns Enhancement and Advancement Project (REAP) has been undertaken by GSTN, in which, auto-population of ITC and liabilities in GSTR-3B return from GSTR-2B and GSTR-1 has been started w.e.f. December 2020. By this linking of GSTR-1 and GSTR-3B the objective of invoice matching, ITC validation, system verified flow of ITC and liability matching have been achieved.

(xii) E-invoice has been made mandatory for taxpayers with turnover of more than ₹500 crore with effect from 01.10.2020 for B2B transactions and for export invoices. The threshold for mandatory issuance of e-invoice has been reduced to ₹ 5 crore from 01.10.2023. Data from e-invoice is being auto-populated in Form GSTR-1 of the taxpayer, which in turn is being used to auto-populate GSTR-3B returns.”

97. On being asked regarding the percentage of women employees in the CBIC human resource pool and the measures being undertaken by the CBIC to further empower women as part of its social responsibilities, the Ministry replied as under:

“As per news report in the Business Line dated 9 January, 2024, The Central Board of Indirect Taxes & Customs (CBIC) has prescribed measures to empower women to contribute meaningfully to the global economy. These include greater representation for women in trade bodies, besides providing gender specific infrastructure at customs posts.

(i) The latest available data of women manpower in CBIC is as on 01.04.2024 which is detailed below in Annexure-B. Information regarding crèches and feeding rooms made at the CBIC offices etc. is not available as the issues does not pertain to this office. However, following measures are being undertaken by the CBIC to further empower women as part of its social responsibility

(a) CBIC aims to provide a safe and secure work environment for women employees without discrimination on the basis of gender.

(b) To cater to the role of primary caregiver of women, CBIC has provision of Child Care Leave to women employees as per Central Government Rules. There is also provision in transfer policy of Group A officers, which allows posting of working couples at same station, subject to availability of posts in accordance with the extant guidelines of DoPT. This is particularly beneficial

to women employees and allows them to attend to their familial responsibilities, while discharging official duties.

(c) To have a secure working place for women employees, Internal Committees for Prevention of Sexual Harassment have been formed in all offices under CBIC. Gender sensitization trainings have been made mandatory for all employee under CBIC under iGOT Karmyogi programme. Further gender sensitization workshops are conducted in offices from time to time.”

ANNEXURE-B

REPRESENTATION OF WOMEN IN CBIC AS ON 31.03.2024												
Ministry/ Department	Group A			Group B Gazetted/ Non Gazetted			Group C			Total Employees (Male + Female) & Total No. of Female Employees		
	M	F	F%	M	F	F%	M	F	F %	T	F	F%
CBIC	413 8	737	15	36927	4825	12	10727	1516	1 2	5887 0	707 8	12

G) OTHER ISSUES RELATED TO GST RAISED DURING THE ORAL EVIDENCE

98. On being asked regarding recent amendments to the GST law targeting the online gaming sector, especially illegal offshore platforms, tax evasion persists and with the DGGI admitting the challenge of enforcement, what specific steps are being taken to curb revenue losses, and is the agency capable of handling the growing complexity of the online gaming industry, the Ministry replied as under:

“Steps taken by DGGI to curb revenue losses:

1. DGGI has issued SCNs in 78 cases involving GST demand of Rs. 1,15,025 crores till August, 2024 in respect of domestic online gaming entities. Investigations in 32 cases is still ongoing. Further, 29 Writ Petitions (including the case of M/s Gameskraft Technologies Pvt. Ltd.) have been filed by online gaming entities against SCNs issued by the Department mainly challenging the constitutional validity of Rule 31A(3) of CGST Rules 2017 and Section 15(5) of CGST Act 2017. The total amount involved in these 29 Writ Petitions

is Rs. 70,091.17 crores. The next date of hearing in these cases is in October, 2024.

2. Subsequent to changes made in the CGST Act and IGST Act w.e.f. 01.10.2023, compliance of Domestic online gaming entities in respect of discharge of due tax liability has improved, which is evident from the increasing revenues from this sector. Even though after clarification in law w.e.f. Oct. 2023, some of the companies were not paying GST @28%. DGGI is continuously taking action to identify such entities. With respect to regulation of offshore online gaming entities, DGGI is regularly sending proposals through D/o Revenue to Ministry of Electronics and Information Technology (MeitY) for blocking of public access to such non-compliant offshore online gaming entities. Apart from blocking the websites/URLs of illegal entities, DGGI ZUs are also identifying the UPI IDs belonging to these illegal offshore operators and taking action to debit freeze such IDs.

3. DGGI is also pursuing its appointment as authorized agency to issue takedown/ removal notice(s) to intermediaries hosting websites/ URLs/ apps of non-compliant offshore online gaming entities under Section 79(3)(b) of IT Act, 2000 read with Rule 3(1)(d) of the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021, as advised by MeitY. It will further enhance DGGI's capabilities to effectively block the public access of non-compliant offshore gaming entities. Since the regulation of offshore online money gaming entities needs multi dimension approach, DGGI is actively coordinating with other stakeholders/agencies in this regard like MeitY, Indian Cybercrime Coordination Centre (I4C), ED, FIU, IB, RBI, NPCI etc. For more effective synergy between various stakeholders/agencies, DGGI is also regularly raising the matter at various multi agency forums such as WGIA, EIC etc.”

99. On being asked Offshore gaming companies continue to evade GST registration and taxes despite the law requiring them to register. Does the DGGI's failure to enforce compliance on these platforms represent a significant gap in its enforcement mechanisms? What specific outcomes have resulted from the agency's efforts to address this issue, the Ministry replied as under:

“1. As elaborated above, DGGI is actively taking inputs from various gaming associations/ federations like AIFF, EGF, FIFS etc. regarding the operations of Offshore online gaming platforms. DGGI is regularly sending proposals through D/o Revenue to MeitY for blocking of public access to such non-compliant offshore online gaming entities. This office is pursuing with Board to designate DGGI as nodal agency and notified in terms of para 4 of the OM of MeitY dated 01.01.2021 as authorized agency to issue takedown/ removal notice(s) to intermediaries hosting websites/ URLs/ apps of noncompliant offshore online gaming entities under Section 79(3)(b) of IT Act, 2000 read with Rule 3(1)(d) of the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021. After appointment of DGGI as nodal

agency, more effective blocking of non-compliant offshore online gaming entities will be done.

2. Thus, it is seen from above that DGGI is taking action against noncompliant offshore entities by blocking their public access, freezing debit accounts of these entities, meetings with various associations/federations and taking the inputs from them, raising the matter regarding offshore entities on various multi-agency forums such as WGIA, EIC etc. DGGI is also coordinating with various stakeholders/agencies to develop comprehensive strategy and regulations to combat proliferation of such platforms and ensuring regulatory compliance.”

100. Highlighting a pertinent issue discussed under an article regarding Old GST data to be archived from GST portal starting September 30, 2024, the Committee asked certain questions related to this policy such as why is the government archiving GST data when there is a legal provision for preserving tax records under other laws like the Income Tax Act and the Companies Act. To this query, the Ministry replied as under:

“No data has been archived till date. All data has also been made visible to the taxpayers including for the oldest tax period under GST. Although the GST Portal is scalable, GST data has been increasing rapidly every year on account of increase in taxpayer base, improved compliance and introduction of new initiatives by GST Council such as EWB & e-invoice. This is a huge data which leads to GST System performance issues and deficiency in experience to the taxpayers. Accordingly, “Data Archival Policy for the GST System” has been approved by the GST Council. GSTN is responsible for maintaining the system for compliance of GST law where there is limitation on period of assessment.”

101. On being asked what specific reasons have been provided for archiving data older than seven years on the GST portal, and how does this reconcile with the legal requirement to maintain records for up to 10-15 years under the Income Tax Act and other laws, the Ministry replied as under:

“No data has been archived till date. The maintainability of data under GST law has to conform to the limitation provided under GST law and should take care of availability of the data in case of ongoing litigation cases. GST Archival Policy was approved by the GST Council and would be implemented in due course of time.”

102. On being asked why the taxpayers were not given sufficient notice or a longer timeline to prepare for the archiving of GST data, the Ministry replied as under:

“All data is now visible on the portal and taxpayers have been advised to maintain their records. Advisory dated 29th September 2024 has been issued to the taxpayers by GSTN to this effect.”

103. Considering that GST notices can be issued within 3-5 years (depending on the case type), on being asked how will businesses access data that is now archived, especially if they need to provide documentation for inquiries or audits related to older returns and Could this hinder their ability to respond effectively to such notices, the Ministry replied as under:

“In the archival policy, adequate checks have been provided to ensure availability of data during the period of limitation provided under the GST law and in case of ongoing litigation cases. For now all data has been made visible and archival policy as approved by GST Council shall be implemented in due course.”

104. When asked, what measures are in place to ensure that archived GST data remains accessible for ongoing litigations or future inquiries by businesses and whether any process has been established for requesting the archived data, the Ministry replied as under:

“In the archival policy, adequate checks have been provided to ensure availability of data during the period of limitation provided under the GST law and in case of ongoing litigation cases. For now all data has been made visible and archival policy as approved by GST Council shall be implemented in due course.”

105. When asked regarding the implications of this data archival on tax demand notices related to older GST returns, the Ministry replied as under:

“No data has been archived till date. The maintainability of data under GST law has to conform to the limitation provided under GST law and should take care of availability of the data in case of ongoing litigation cases. GST Archival Policy was approved by the GST Council and will be implemented in due course of time.”

106. On the issue of complexity of GST filing procedure especially for MSMEs, Members during the Oral Evidence held on 4th October 2024, raised a pertinent issue as under:

“...the GST refund procedure is very complicated. I am again shocked that when the whole of GST thing is online, why you are asking for papers to be submitted for refund? Ask any MSME person, they keep running to offices with files. When everything is online, why are you forcing them to come with the papers? Their problem is that their systems are very small; they cannot afford so many employees. What are you doing to make it simpler? What is the cost of setting up such a big digital infrastructure? If such large amounts are already invested, then you are again asking for a paperwork. Is it ease of doing business to the smaller ones? Why is the refund system not faceless? Everything is online. Can you set up a cut-off date after which you will not demand papers. Please, set up a cut-off date that after this we will leave the paper filing system ”

107. On the issue of online gaming sector, Members during the Oral Evidence held on 4th October 2024, raised a pertinent issue as under:

“...given the fact that the online gaming sector recorded the highest GST evasion in the year 2024, what are the possible reasons for high evasion in this sector? What steps have been taken to reduce this evasion in this emerging sector? The amount is almost ₹ 81,875 crore in just 78 cases.”

108. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“A huge demand of almost of ₹ 1 lakh crore was basically was because of the law and the way we had written it or the way the online gaming had interpreted it and implemented it. That is why, there is a huge demand pending against them. However, going forward, prospectively, we amended the law to provide clarity and from 1st October 2023, this law came into effect. After that, there is no case of evasion in the online gaming industry. It has been a win-win both for the online gaming industry as for us. We have got about four-and-a-half-time higher revenue than we were getting previously. At the same time, it has been given a certainty to the online gaming companies also. It has reduced the burden of taxation on them.”

109. On the issue of delay in GST refunds to exporters, Members during the Oral Evidence held on 4th October 2024, raised a pertinent issue as under:

“...regarding working capital crunch to exporters, under the new GST, exporters are required to pay GST taxes on all inputs and then to claim refund. However, there is so much of delay in refunds due to system lapses. Even exporters in MSME sector are also badly affected. How to

address the late refund of GST, which affects the credit position of MSME industries?”

110. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“...in case of exporters who were exporting the goods, in most of the cases, their refund is disbursed through Customs CDI system. In that case, as soon as the export takes place and tax payer file its monthly return in which he has discharged the tax liability, in the Customs Automated System, that reconciliation is made and automatically it gets credited in the exporter’s account on the generation of scroll. In case of export of services, because it does not pass through the Customs Automated System, one has to file its claim online GSTN and along with that one has to file the documents related to realisation of foreign exchange. Those documents come online to the officers and they scrutinise such documents and then the refund is granted. In that process slightly more time is taken but still refunds are granted within a period of 60 days. In certain refund cases, we have found that there is fraudulent claim of refunds, especially, in respect of export of goods. Those cases have been pointed out in C&AG report also and we have initiated action against the exporters for recovery of the amount and we have also initiated actions against the delinquent officers if we have found that there is complicity of such officers.”

111. On an important issue related to steel rolling mills, Members during the Oral Evidence held on 4th October 2024, raised a pertinent issue as under:

“...there are small players running rolling mills and steel mills. They purchase scrap from scrap dealers. Sometimes, it comes out that the scrap dealer is a fraud or he has run away. Then the whole GST system comes at that particular unit. The Steel rolling mills have raised a concern that the tax on scrap maybe taken from them but in case of the scrap dealer defaulting on the tax, don’t penalize the steel rolling mills unit. People are running away from that. Now the industries are shifting either to Himachal Pradesh, Uttarakhand or Jammu and Kashmir because the tax system is not there for the first 10 or 15 years.”

112. On an important issue related to taking out criminality for financial offences, Members during the Oral Evidence held on 4th October 2024, raised a pertinent issue as under:

“...CBIC mentioned a number of arrests that have been made in various cases. The present approach of the government is to take out criminality for financial offences. In many cases, this imprisonment has been taken out. What is the Finance Ministry's latest thinking on taking out this arrest provision from the GST laws. Second, regarding imposition of dual tax on middle persons, as per new Circular no. 171, the Department is imposing penalties on taxpayers on input tax as well as output tax. If B has received services or supplies from A and passed on the same to C, on a later date, A found to be fraudulent. The Department is imposing dual penalties on B who might be unaware of the fraudulent nature of A.”

113. In this regard, Secretary, Ministry of Finance (department of Revenue) during the evidence held on 4th October 2024 stated as under:

“...Sir, I want to inform that through the Finance Act of 2023, three provisions are there, one, Sir is relating to obstructing or preventing any officer in the discharge of his duties under the Act. Number two, tampering with or destroying any other evidence. Number three, failure to supply information. These were decriminalized because there were already similar provisions available in the IPC and now, Sir in the BNS. It has been the policy of the Government to decriminalize as far as possible the economic offences and moreover Sir, the threshold limit for wrongfully availing of tax credit, ITC, or refund thereof, the threshold of rupees one crore was also increased to rupees two crore. Powers of arrest, legally, is up to rupees two crore. However, as per instructions, we are arresting only if there is a fraud or an offense which involves a tax or which has a tax implication of more than rupees five crore. So, the power of arrest is being used very sparingly, only in the rarest of the rare cases where there is actually some fraudulent evasion of tax. Otherwise, we are resorting to, as was also mentioned by one of the hon. Members Dr. Ravi Shankar Prasad that the effort always has been to have a collaborative effort, a partnership effort.”

PART II

OBSERVATIONS/ RECOMMENDATIONS

Introductory

The Committee find that Goods and Services Tax (GST) is a tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption. GST came into effect from 1 July 2017. Central Excise duty (except five Petroleum and tobacco products), Service Tax, Additional Customs Duty, Special Additional Duty of Customs (SAD) and most of the indirect taxes of States have been subsumed into GST. Audit Report no 7 of 2024, contained significant results of the compliance audit of Central Board of Indirect Taxes and Customs (CBIC) under the Department of Revenue. The Committee examined the subject on 4th October, 2024. The Committee's examination of the subject and their observations/ recommendations on the issues relating to Goods and Services Tax as brought out in the Audit Report and updated information received from the Ministry are detailed in the succeeding paragraphs.

Declining Share of Indirect Taxes

1. During the examination of the subject, the Committee learn that the share of indirect taxes in total revenue receipts has declined from 38.76% in FY18 to 36.92% in FY20, with fluctuations observed in subsequent years. The Ministry attributed the decline to macroeconomic factors such as import volumes, global economic conditions, and changes in tax policy, including reductions in duty rates on FTA imports. While the Committee acknowledge the influence of external factors, they are concerned that the Ministry has not provided a comprehensive strategy to mitigate these influences and to mark a steady growth in indirect tax revenue. Therefore, the Committee observe that the Ministry should develop a proactive strategy that ensures timely assessments of the impact of macroeconomic factors on tax collection and provides an accurate projection of the revenue to be collected, with the help of state of the art data analytics and AI tools.

Finalisation of Compensation Fund Accounts Format

2. The Committee note that as per Section 10(4) of the Goods and Services Tax (Compensation to States) Act 2017, the Compensation Fund accounts must be audited by the Comptroller and Auditor-General of India (CAG) or any other person appointed by him at specified intervals and Section 10(5) of the Act mandates that these accounts, as certified by CAG together with the audit report thereon, shall be laid before each House of Parliament. The Committee are perturbed to note that CAG in their Report No. 1 of 2021 (Indirect Taxes- GST, Central Excise and Service Tax) for the year March, 1999 to March, 2020 had pointed out non-furnishing of Compensation Fund Account by the Government for Audit. The Ministry in their reply furnished to Audit Para in April 2021 submitted that CGA in consultation with CAG would propose the template for Compensation Fund Accounts. In September 2021, CGA ruled out the requirement for separate GST Compensation Fund Accounts. Thereupon, CAG suggested a sample format for Compensation Fund Accounts as a note to the relevant statement to the Finance Accounts, *inter-alia* containing vital information such as the quantum of compensation due to each State / UT; already released and balanced, if any. Department of Revenue in December, 2022 conveyed their 'no objection' to the sample format. However the Audit, for the financial years ending March 31, 2018, to March 31, 2021 is still pending due to non-production of the Compensation Fund Accounts in the required format. In this regard, on being asked the reasons for delay in finalization of Compensation Fund Accounts, the Ministry stated that the Compensation Fund accounts were submitted in the required format to the CCA, DoR, on several dates (14.06.2023, 28.12.2023, 31.05.2024, and 06.08.2024) for onward submission to the CAG. All AG Certificates for FY 2017-18 to FY 2021-22 have been processed and submitted to CAG, except for Jammu & Kashmir for FY 2019-20, as specific figures are pending. The Committee are surprised that audit of Compensation Fund Accounts by CAG as mandated by an enactment by Parliament has been unduly delayed for more than six years which has

adversely affected the sharing of Compensation Fund due to States / UTs. The Committee further note that Section 7(2) of the Act mandates that the compensation payable to a State shall be provisionally calculated and released at the end of every two month period, and shall be finally calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor-General of India. The Committee, therefore, strongly recommend that the Ministry should streamline the procedure involved in finalizing the Compensation Fund Account Format and submission of the same to satisfaction of CAG to enable him to undertake his statutory function in a time bound manner. This involves setting clear timelines for each stage of the process and ensuring strict adherence to them. By doing so, the Ministry can improve accountability and efficiency, enabling timely audits and compliance with statutory requirements. The Committee strongly recommend that the responsibility in this regard be fixed under intimation to the Committee.

3. Further, taking a serious note of the delay in furnishing of Compensation Fund Accounts details for audit on the part of the Ministry and considering the same as a breach of relevant provision of Section 18 of CAG's (Duties, Powers and Conditions of Service) Act, 1971, the Committee strongly recommend that the responsibility in this regard be fixed under intimation to the Committee. The Committee underscore the urgency of this matter to prevent further delays that could undermine the very objective of the GST (Compensation to States) Act, 2017, which was passed by Parliament to ensure timely disbursement of compensation to States and Union Territories. The Committee note that the Ministry is responsible for furnishing Compensation Fund Accounts in the sample format recommended by the CAG in December 2022 and concurred by the DoR, to see that audits are conducted within the stipulated timeframe.

Non-submission of documents/replies by the Department to C&AG for Audit

4. The audit highlighted that as of June 2023, Audit was still awaiting preparation and production of Compensation Fund Accounts for audit in an

appropriate format, as suggested by Audit, under Section 10 (4) of the GST (Compensation to States) Act, 2017. Further, from a selected sample of 10,667 cases from amongst the top deviations /inconsistencies in the returns in each of the 14 parameters for the year 2017-18, initial responses were yet to be received by the Audit, as of 31 January 2024, for 2,447 inconsistencies *inter-alia* containing mismatches/inconsistencies amounting to ₹ 32,577.73 crore communicated to the Department of Revenue. The Committee note with concern the delays by the Ministry in submission of replies/ information to Audit. The Committee are of the opinion that free flow of information between Audit and Ministries is a pre-requisite to ensure that lacunae, if any, in the systems, without delay could be addressed and stable, robust and reliable GST regime could be put in place. The Committee are concerned with this lackadaisical approach of the Ministry in data/document sharing with Audit and opine that lack of effective coordination, within the indirect tax collection system is adversely impacting overall tax compliance and revenue collection. Noting this concern, the Committee desire that the Ministry may establish a formal mechanism for coordination with Audit, including regular meetings and updates on pending cases.

Issues with registration process

5. The Committee also note that the audit highlighted a case involving a taxpayer in the Begumpet-III Range of Secunderabad, Telangana, who paid license fees and spectrum charges for telecom services in both Andhra Pradesh and Telangana. For GST purposes, their establishments are treated as distinct entities. The taxpayer paid GST on spectrum charges in Telangana under the Reverse Charge Mechanism (RCM) but claimed ₹ 49.34 crore in Input Tax Credit (ITC) for these charges. Since the spectrum services for Andhra Pradesh were used by a separate unit registered there, the tax should have been allocated to that State. Thus, the taxpayer was not entitled to the ITC for services used by their unit in a different State. The Ministry's response in this regard has been that while it is one tax, or as stated, "One Tax One Nation," there are both State and Central taxes. The Committee further note from the

response that due to the nature of SGST, if a unit is conducting business in different States, registration in each particular State becomes necessary because the tax has to go to that State. The Committee opine that the Ministry's response indicates that while the GST law allows for multiple registrations, the lack of correct procedural validations has led to instances of non-compliance and administrative burdens for businesses. The Committee are concerned that these issues not only create confusion for taxpayers but also hinder effective tax administration and the the Ministry needs to ensure that taxes due are collected on time. To address this issue, the Committee recommend that the Ministry consider enhancing the functionality of the GST portal to facilitate easier management of multiple registrations by the same users/companies as permissible under GST Act/Rules, allowing taxpayers to view and manage their registrations in a user-friendly manner. Further, the Committee suggest that regular consultations with industry stakeholders be established to gather feedback on the challenges faced in managing multiple registrations, enabling the Ministry to make informed adjustments to the system as needed. The Committee also recommend that the Ministry consider creating a unique Business ID for enabling simultaneous tracking of multiple registrations by same business entity in different States GST by the same taxpayer in different State.

6. The Committee further note with concern the fact that while GST was brought to simplify the indirect tax mechanism, the initial step which is registration of the a tax payer on the GST portal is plagued with errors and difficulties. The Committee have observed that the GST Council in its 53rd meeting had recommended to roll-out biometric-based Aadhaar authentication of registration applicants on pan-India basis in a phased manner. Biometric Based Aadhaar Authentication after being implemented as a pilot project in Puducherry, has now been extended to the State of Andhra Pradesh, Gujarat, Delhi, Punjab, Bihar, Jammu and Kashmir, Karnataka, West Bengal, Dadra and Nagar Haveli and Daman and Diu, Chandigarh, Uttarakhand and GSTN is targeting to implement the same in remaining States soon. The Committee feel that when the initial step itself is riddled with so many issues, the vision of GST leading to a simplified and unified taxation system i.e. "One Nation One

Tax” may remain evasive. The Committee therefore desire that not only the Ministry review and rectify the lacunae in GSTN Registration but also complete the Biometric Based Aadhaar Authentication in the remaining States in time bound manner.

Issues with GST Return Filing mechanism

7. The Committee find that the audit identified significant compliance deficiencies and urged the Department to take remedial measures before cases become time-barred. To improve oversight mechanism on return filing, taxpayer compliance, tax payments, and recovery of dues, the Department should enhance documentation quality and institutional mechanisms. The audit also recommended the expedited deployment of certain validation controls and MIS features in the CBIC back-end application, as well as the introduction of additional validation controls in GST returns to improve data quality and facilitate scrutiny. The Ministry's response acknowledged these issues and indicated that efforts are being made to streamline the refund process; however, the Committee feel that the existing mechanisms are still inadequate, resulting in prolonged waiting periods for refunds and potential cash flow challenges for businesses. The Ministry of Finance had also flagged the issue of delayed refunds and assured that it is their policy and endeavor to provide refunds, especially for exports, as expeditiously as possible, and that most refunds are provided within a period of one month. In fact, it was noted that some zones have even provided refunds within a few days, and their consistent endeavor has been to provide time-bound refunds. To address this issue, the Committee recommend that the Ministry should implement a more efficient and transparent refund processing system that includes clear timelines for processing claims and regular updates to taxpayers on the status of their refunds. Further, the Committee suggest that the Ministry conduct training sessions for tax officials focused on the refund process to ensure consistent application of rules and timely resolution of claims. Establishing a dedicated grievance redressal mechanism for refund-related issues would also be beneficial, allowing taxpayers to raise concerns and receive prompt assistance. The Committee also desire that the Ministry study the techniques

used by the zones that are providing refunds within a few days and replicate those practices across other zones to ensure prompt refunds for taxpayers, especially exporters and MSMEs.

Invoice Matching

8. The Committee note the Audit's recommendation for a system-verified flow of Input Tax Credit (ITC) through "invoice matching" and emphasizes the need for the Ministry to focus on preventive checks via IT systems rather than post-facto interventions. During the evidence session on 4th October 2024, the Secretary of the Ministry of Finance confirmed the rollout of optional invoice matching, with plans to make it mandatory to eliminate discrepancies between tax credits claimed by buyers and provided by suppliers. The Committee also note that discrepancies within tax credits are also arising due to data entry errors. Observing that the complexity of GST filing system also presents hurdles in the filing of return for honest taxpayers, the Committee feel that automation of invoice matching needs to be prioritized by the Ministry. Acknowledging the importance of automatic invoice matching in ensuring the seamless Input Tax Credit mechanism, the Committee urge the Ministry to use latest technological advances within the GST framework to automate extraction of data from invoices to be uploaded from taxpayers and integrate them within the filing process to streamline the GST return filing process and reduce compliance burdens for honest taxpayers.

Further, so as to prevent fraudulent claims, the Committee recommend integration of the data so extracted which currently lie fragmented in silos so that irregularities, if any, can be detected and prevented from being uploaded in the GST framework.

Automation of GSTR-3A Notices

9. The audit highlighted that while GSTR-3A notices are now being issued directly from the GSTN, there were significant delays in the automation process, which affected the timely follow-up on non-filers. The system initially

lacked adequate validation checks, leading to discrepancies in the issuance of notices. The Committee note that the Ministry acknowledged the delays in the automation of GSTR-3A notices and stated that the backend processes have now been migrated to the GSTN Back Office, where automation of GSTR-3A notices is available. The Ministry have also mentioned that the system is designed to issue notices based on non-filing of returns. The Committee appreciate the Ministry's efforts to automate the issuance of GSTR-3A notices but are concerned that the initial delays and lack of validation checks may have allowed non-compliance to persist longer than necessary. The Ministry may ensure that the automation process for GSTR-3A notices is continuously monitored and improved. This includes implementing sufficient validation checks to flag discrepancies before notices are issued. In line to the feedback mechanism for the GST Returns , the Ministry may establish a feedback mechanism to assess the effectiveness of the automated notices in improving compliance rates.

Overall Impact of Automation on Compliance

10. The audit indicated that while automation has been introduced, the overall impact on compliance has not been adequately assessed. There are concerns that the system may not effectively capture all instances of non-compliance. The Ministry acknowledged the need for ongoing evaluation of the automation processes and stated that measures are being taken to enhance the system's capabilities to identify non-compliance. The Committee recognize the potential benefits of automation but emphasizes the importance of evaluating its effectiveness in improving compliance rates. They feel that without proper assessment, the Ministry may miss opportunities to refine the system further. The Committee recommend that the Ministry should establish a dedicated task force for comprehensive evaluation framework by onboarding technocrats, GST experts, and senior officers to periodically assess the effectiveness, complete automated processes, suggest improvements and to oversee implementation of its suggestions.

Non-adherence to prescribed procedure for suo-moto cancellation of GST Registration

11. As per Section 29(2) of the Act, GST registration cannot be cancelled without a Show Cause Notice being given to taxpayer and a reasonable opportunity of being heard by the Tax Officer. The Committee note that Audit has reported their findings based on the sample of 58 out of 179 ranges and concluded that out of 14,998 cases cancelled suo-moto, the Show Cause Notice (REG-17) had not been issued in 6,353 cases. This has resulted in delays in the cancellation of registrations and potential revenue loss. The Ministry stated that the functionality for issuing REG-17 notices has been integrated into the GSTN Back Office, and that the issuance of these notices has been automated. The Ministry emphasized that the system requires a Show Cause Notice to be issued before a registration can be canceled. The Committee are concerned that despite having a laid down provision for auto generation of REG-17 to serve a show cause notice to the concerned assessee to ensure that an opportunity for being heard before cancellation of registration is taken care of. The lack of proper documentation in this regard in many cases raises questions about the effectiveness of the automated system. The Committee recommend that the Ministry should introduce validations of the automated REG-17 issuance process at the level of Commissioners to ensure compliance with the prescribed procedures. The Committee further recommend that the Ministry provide training to tax officers on the importance of adhering to the automation protocols and maintaining proper documentation to support the issuance of notices so that unwanted litigations are avoided and collection of revenue is not hampered.

Monitoring and Documentation Deficiencies

12. The Committee learn from audit findings that in all the selected Ranges that even manual records – files, registers and reports for main functions like monitoring, filing of returns, pursuing cancellation of registrations or tracking non-filers - were not being maintained and the documentation rigour was poor.

The Committee note the reply of the Ministry acknowledging the issue and stated that efforts are being made to improve documentation and monitoring through the implementation of the Antarang portal (the Intranet platform and Knowledge Management portal for the Central Board of Indirect Taxes and Customs). Ministry further stated that in order to identify mismatches in returns, a functionality “Comparison of Liability Report” had also been deployed (April 2022) in CBIC-ACES back-end application and made available to departmental officers. They also note the reply from the Ministry that they have instructed the field formations (April 2023) to ensure proper maintenance of manual records/registers, and to follow the procedure of handing over/taking over charge at Superintendent and Inspector levels to facilitate smooth takeover and effective monitoring of the essential functions of Ranges. The Committee are deeply concerned about the absence of proper documentation within the GST framework, as this deficiency significantly hampers effective monitoring and accountability in the GST regime. They feel that without adequate documentation, it becomes challenging to track transactions, verify compliance, and assess the accuracy of reported data. This lack of transparency can lead to inconsistencies, errors, and potential misuse of the system, ultimately undermining the integrity of the GST regime. To address these SOPs, the Committee desire that the Ministry should issue a comprehensive issue after consultation with all stake holders for documentation and proper monitoring of all GST related documents in digital format within six months of presentation of this report.

GSTR 3B

13. Audit reviewed the progress made with respect to the GST return mechanism and observed that while some of the limitations were addressed by the changes in the GST return system, the existing GSTR-3B still had gaps and needed improvement. The Ministry stated that GST Council, in its 42nd meeting held on 5th October 2020, had recommended to make GSTR-1/3B return filing as the final return system in GST and incremental approach has been adopted to improve the quality of data and to move towards more

system-verified details in monthly return in FORM GSTR-3B. in order to deal with difference in liability reported in GSTR-1 and GSTR-3B and the difference in ITC availed in GSTR-3B in comparison to ITC available in GSTR-2B, Rule 88C and Rule 88D have been inserted in CGST Rules. As per these provisions, if the said difference is more than a threshold, as recommended by the GST Council, taxpayer receives a system generated intimation regarding the same and they have to either pay tax/ reverse ITC or explain the unpaid difference, if any, in their reply, failing which the taxpayers are restricted to furnish GSTR-1 of subsequent tax period and action as per law may be taken to determine their tax liability. Accordingly the Ministry have stated that amendments have been made in Table 4 of GSTR-3B and Circular 170/02/2022-GST dated 06.07.2022 has been issued to mandate furnishing of correct and proper information of inter-State supplies and amount of ineligible/blocked ITC and its reversal in GSTR-3B. Further, an “Electronic Credit Reversal and Re-claimed Statement” has been made available to the taxpayers from the return period of August 2023, which enables the taxpayer to view the details of ITC reversed and ITC re-claimed for each return period and the balance available, such that the ITC re-claimed in GSTR-3B is not more than the ITC reversed. To assist taxpayers in correctly reporting Reverse Charge Mechanism (RCM) transactions in GSTR -3B, a new statement called “RCM Liability/ITC Statement” has been made available from August 2024 which will ensure that ITC availed on RCM is not more than the tax discharged on RCM by the taxpayers. The Committee note from Audit observations that the original GST return system relied on "invoice-matching" through GSTR-1, GSTR-2, and GSTR-3. Suppliers would file details of outward supplies in GSTR-1, which would then be available to recipients as input tax credit in GSTR-2A. Taxpayers were expected to file GSTR-2 based on GSTR-2A and other inward supplies, while GSTR-3 would be auto-generated from GSTR-1 and GSTR-2, requiring details of tax liabilities. However, due to an unprepared GST ecosystem and the complexity of these returns, GSTR-2 and GSTR-3 were suspended, and a simpler temporary return, GSTR-3B, was introduced for an initial two-month period. The Committee opine that considering the time GST system has now had to mature, ITC system should now become operational.

Further, since ITC plays a key component in preventing cascading of taxes, finalization of ITC system is of utmost importance so as to ensure that the benefits of GST are passed on to the end consumer. The Committee therefore insist that the requisite changes pertaining to amendment tables in GSTR-3B, modification in Table 4 of GSTR-3B for capturing line wise ITC reversals and allowing auto-population of values from GSTR-1 into GSTR-3B in the specific rows in GSTR-3B be carried out at the earliest in a time bound manner.

14. Additionally, the Ministry may enhance the use of technology and data analytics to streamline the verification process, allowing for real-time assessments of ITC claims and reducing the need for manual interventions. Further, the Ministry may implement a training program for tax officials focused on the ITC system, ensuring that they are equipped to handle queries and disputes effectively while maintaining consistency in the application of rules.

15. Further, the Ministry has mentioned that Comparison reports have been developed and made available to taxpayers and tax officers showing the difference in liability declared in GSTR 1 and GSTR 3B and difference in ITC as per GSTR 2A/2B vs ITC claimed in GSTR 3B. The Committee desire that the Ministry consider making these comparison reports more tax payer friendly by displaying them through an interactive dashboard, so that the tax payers as well as the officers are better able to gauge the changes in the reports and take corrective actions if any are required.

Reconciliation and mismatch of data in GSTR 3B and GSTR-9

16. The Committee note with concern the findings of the audit, which reported significant mismatches in outward tax liability between GSTR-9 (the annual return) and GSTR-3B (the monthly return), with discrepancies reaching as high as 186.99% in 3.35 lakh cases. The Committee observe that the Ministry's response indicates these discrepancies arise from the nature of GSTR-3B as a consolidated return, which allows taxpayers to amend or add

supplies until November of the following financial year, complicating the comparison with GSTR-9. The Committee are therefore concerned that the lack of systematic checks and immediate rectification measures has allowed these issues to persist, potentially leading to significant revenue losses. To address this issue, the Committee recommend that the Ministry should implement a thorough reconciliation process that automatically flags discrepancies between GSTR-3B and GSTR-9, prompting timely investigations and corrections.

17. Moreover, the Committee stress the need for enhancing the tax payers awareness of the consequences of data mismatches, particularly regarding the timing of reporting liabilities and the impact on their returns. Further, the Committee observe that since GSTR-3B is a consolidated monthly return and GSTR-9 is prepared for a financial year, the Ministry should consider providing a detailed breakdown of the amounts in GSTR-3B, including the amounts from GSTR-9, to help taxpayers better understand the components of their tax liability.

Mismatch Between Declared Sales and Taxes Paid

18. The audit identified 70 cases where taxpayers reported unrealistic sales in their CMP-08 forms. Notably, a taxpayer from the Kolkata South Commissionerate reported sales of ₹ 2,477,710,12,388 for April-June 2020 but only paid ₹ 24,776 in tax. The Ministry confirmed that the actual outward supply was ₹ 24,77,710, indicating that the taxpayer inadvertently entered an incorrect value. Despite seeking clarification, the taxpayer has not responded, and an Assessment (ASMT)-10 has been issued for FY 2020-21. Initially, the Composition Levy Statement cum Challan (CMP)-08 form lacked validation for self-assessed liabilities, but such checks were introduced in August 2021, preventing submissions that exceed threshold limits. Since then, an error message is displayed whenever the output liability declared via CMP-08 by a taxpayer crosses the threshold limit in a financial year, and CMP-08 is not allowed to be submitted. The audit highlights serious concerns about the integrity of the GST system, as the back-end system accepted unrealistic sales

without flagging them, indicating a failure in validation mechanisms. This lack of safeguards raises the risk of systemic abuse and fraudulent reporting, undermining the integrity of the GST framework and eroding public trust in the tax system. The Committee emphasize that, apart from the error message displayed to prevent data entry errors, the Ministry should develop an automated flagging mechanism within the GST system that identifies and escalates cases of unrealistic sales reporting (e.g., sales reported in the billions with minimal tax paid) for further review by tax officials at higher level. Further, the Ministry should mandate quarterly compliance reviews for taxpayers who have reported unrealistic sales figures in their CMP-08 forms. These reviews should involve direct communication with the taxpayer to verify reported figures and assess compliance with GST regulations.

Scrutiny Module

19. Audit observed that the Standard Operating procedure (SOP) for scrutiny of returns for FY17 and FY18 issued by The Board in March 2022 was issued as an interim measure as the Scrutiny Module for online scrutiny of returns had not been made available on the Department's back-end IT application i.e. CBIC-GST application. The Ministry's reply in this regard stated that Automated Returns Scrutiny Module, which implements a system-based scrutiny on specified criteria, leading up to auto-generation of draft discrepancy intimation ASMT-10 (Assessment Notice 10) to be issued to the taxpayer, is under development. This is anticipated to streamline the scrutiny process, providing the opportunity to the taxpayer to explain the mismatches or pay the liabilities before the matter reaches the adjudication or litigation stage. The Committee note that the Ministry's response acknowledged the existence of the Scrutiny Module but indicated that it is yet under development stage. The Committee are concerned that the current framework does not provide adequate guidance to taxpayers on what triggers scrutiny, resulting in confusion and potential non-compliance. The Committee therefore emphasize that the development of Automated Returns Scrutiny Module and subsequent auto-generation of draft discrepancy intimation (ASMT-10) to be issued to the

taxpayer be expedited so as to ensure full transparency and monitoring of the scrutiny function of the Department. Further, the Committee also recommend that the Department may ensure the completion of scrutiny within the prescribed time limit to ensure that demands, if any, do not become time-barred.

Issue of non filers

20. The audit identified that the process of issuing notices to non-filers, specifically GSTR-3A notices, was initially plagued by delays and lacked adequate validation checks, allowing non-compliance to persist longer than necessary. The Ministry acknowledged these delays but stated that the backend processes have now been migrated to the GSTN Back Office, where automation of GSTR-3A notices is available. However, the Committee are concerned that despite these improvements, the initial shortcomings may have allowed significant non-compliance to occur. To rectify this issue, the Committee recommend that the Ministry implement sufficient validation checks within the automated system to flag discrepancies before notices are issued and establish a feedback mechanism to assess the effectiveness of the automated notices in improving compliance rates. The Committee recommend that Ministry may enhance mechanisms for identifying and following up with non-filers. This includes utilizing data analytics to flag potential non-compliance and issuing timely notices to encourage compliance. Additionally, the Committee desire that the Ministry ensure that the automated system can identify and flag unprecedented growth in revenue of business which will highlight the cases if any of inadvertent errors in data entry or if the case was that of tax evasion.

Transitional Credit Claims

21. The Committee note that the audit highlighted that 38% of 954 cases, which amounts to 362 claims involving transitional credit claims of ₹ 2,231 crore, were not produced for the security deposit supplementary audit. These

cases were produced after the completion of the audit. The Committee feel that a significant number of transitional credit claims were therefore not adequately verified, leading to potential revenue losses. The Ministry stated that guidelines for verifying transitional credit claims have been issued and that regular audits are conducted to ensure compliance. The Committee recognize the importance of verifying transitional credit claims but emphasize the need for more rigorous enforcement of these guidelines. Further, the Committee are concerned about the Ministry's inability to furnish the said data to the audit. The Committee are of the opinion that the Ministry needs to conduct regular and thorough audits of transitional credit claims and ensure that all claims are substantiated with proper documentation. In addition to, the Committee stress that this information must be furnished to the audit in a timely manner. Further, the Committee urge the Ministry to consider creating a dedicated task force to focus on high-risk claims and ensure that those cases fall strictly in line with the GST compliance system. Moreover, the Committee underline the need to ensure better coordination with the audit and develop a system to facilitate the free and concurrent flow of information to the audit so that issues are addressed immediately.

Measures to prevent data entry errors

22. The Committee note with concern the illustration cited by the audit regarding a case where a taxpayer paid an amount of ₹ 0.72 crore in 2018-19 as per GSTR-3B. However, according to GSTR-9, the taxpayer's outward tax liability under CGST and SGST totalled ₹ 7.15 crore. This difference of 900 percent (approx.) was attributed to a data entry error in GSTR-9. In this regard, the Ministry of Finance (Department of Revenue) stated during the evidence held on 4th October 2024 that validation and cross-checks had been implemented to alert taxpayers at the right time and to pre-empt any detectable mismatch. The Committee are of the view that prompts should be displayed while data is entered to highlight and confirm the amounts before finalization, thereby helping to avoid typographical errors. Further, the Committee

recommend that taxpayers be asked to re-enter the final amount to ensure that the amount entered is intentional and not inadvertent.

Auto-Population

23. The Committee observe that as pointed out by Audit, in certain cases, discrepancies between the Input Tax Credit (ITC) reported in monthly returns (GSTR-3B) and annual returns (GSTR-9) were as high as 13,625%. The Committee feel that given that GSTR-9 is designed to auto-populate from GSTR-3B, the discrepancies in 33,381 returns over a period of four years (2017-21), with a difference as high as ₹ 16,622 crore in 2020-21, reflect very poorly on the established system. The Ministry stated that the auto-population process has been redesigned for optimum long-running jobs to complete them in a shorter time, thereby reducing the overall error rate. It has been decided that from the financial year 2023-24, the redesigned process for auto-population of GSTR-9 shall occur once a year. The results of this change will be analyzed after the last date (31.12.2024) for filing GSTR-9 for FY 23-24. Further, the Ministry stated that ITC accounting or liability accounting is done as a continuous ledger, meaning any monthly return can include ITC from the past financial year. Once invoice-level accounting of ITC is built through the Invoice Management System (IMS), this issue is expected to be addressed. Considering that similar discrepancies were highlighted in the CAG's Audit Report No. 5 of 2022, the Committee are disheartened to note that even after a considerable period of more than 7 years, the Ministry has not been able to stabilize a robust GST ecosystem. The Committee note that large number of discrepancies between the ITC reported in monthly returns (GSTR-3B) and annual returns (GSTR-9) indicate a lack of adequate post-facto data analytics in cases of mismatch between important data points. The Committee emphasize that the Ministry should address the persistent data discrepancies in auto-populated and non-editable fields of annual returns (GSTR-9). The Committee recognize that the Ministry has initiated the Invoice Management System and would like to be apprised of the details of the action taken to address the issues faced in the GST filing system. Further, the Ministry is

expected to ensure that this is carried out within strict compliance with established timelines.

Issues of MSMEs

24. The Committee note that the current GST collection system poses challenges for small and medium-sized enterprises (MSMEs), which may struggle with compliance due to the complexity like Inverted Duty Structure (IDS) and administrative burden of the existing processes. The Ministry's response acknowledged the need for a more taxpayer-friendly approach but did not provide specific measures tailored to the unique needs of MSMEs. To rectify this issue, the Committee recommend that the Ministry implement a simplified GST compliance framework specifically designed for MSMEs, to fast track and automate return filing, refund processing etc. which includes reducing the frequency of return filings and allowing for a more straightforward online reporting process.

Issues of Exporters

25. The Committee highlight significant challenges faced by exporters in the GST framework, particularly concerning delays in the processing of refund claims for input tax credits (ITC) and the complexities involved in complying with export-related documentation requirements. The Ministry's response acknowledged these issues but did not provide specific solutions to alleviate the burdens on exporters, leading to concerns about the impact on their competitiveness in the global market. The Committee are particularly worried that the existing processes are not sufficiently streamlined, resulting in cash flow constraints for exporters who rely on timely refunds. To address this issue, the Committee underline the need for a dedicated fast-track refund processing system for exporters, ensuring that ITC claims related to exports are prioritized and processed within a specified timeframe. In addition to, the Committee call for simplification of the documentation requirements for exports, providing clear guidelines and checklists to help exporters understand compliance requirements. Further, the Ministry should also

enhance the GST portal to include features that allow exporters to track the status of their refund claims in real-time, providing transparency and reducing uncertainty.

26. Further, the Committee hold their firm opinion that the Ministry enhance the accessibility of resources and support for MSMEs by establishing dedicated help-lines and online chat support specifically for small businesses, providing them with real-time assistance for their queries related to GST compliance. The Committee also propose that the Ministry consider creating a user-friendly mobile application that allows MSMEs to manage their GST obligations easily, including filing returns, tracking payments, and accessing educational resources. Finally, the Committee recommend that regular feedback mechanisms be established to gather input from MSMEs on their experiences with the GST system, allowing the Ministry to make continuous improvements that enhance the taxpayer experience for small businesses.

Online Gaming Sector

27. The Committee also highlight recent amendments to the GST law targeting the online gaming sector, especially illegal offshore platforms. Despite these amendments, tax evasion persists, and the DGCI has admitted the challenge of enforcement. The Committee inquire about the specific steps being taken to curb revenue losses. The Ministry's response indicated that the complexities of the online gaming industry, including varying business models and revenue streams, have posed several challenges in establishing a uniform approach to taxation in this sector. Further, the Ministry of Finance submitted that after the amendment of the Act from 1st October 2023, there have been no cases of evasion in the online gaming industry. However, the Committee are concerned that the lack of clear guidelines and timely communication has resulted in delays in compliance and potential revenue losses. To address this issue, the Committee recommend that the Ministry should consider initiating a detailed independent study to understand the revenue streaming models adopted by various gaming platforms and accordingly develop and publish comprehensive guidelines specifically tailored to the online gaming sector,

clearly outlining the classification of services, applicable tax rates, and compliance requirements. The Committee hope that this will ensure the ascertainment of tax liabilities in the online gaming sector, thereby ensuring that operators receive timely and clear communication regarding their obligations. Regular training sessions may also be conducted for tax officials to enhance their understanding of the online gaming industry, enabling them to provide better support and guidance to operators.

Issue of Dual Tax

28. The Committee note specific challenges faced by steel rolling mills in the context of GST compliance and tax administration, wherein they have to pay dual taxes because the scrap dealers end up not paying their share of taxes. Further the committee also took note of the fact that smaller businesses have been shifting to other States where relaxations have been offered in GST. The Committee have also highlighted other challenges that the industry faces, such as issues related to input tax credit (ITC) claims, classification of goods, and the complexity of compliance requirements. The Committee again emphasize that the Ministry should engage in regular consultations with stakeholders in the steel industry, including small and medium enterprises, to gather feedback on GST compliance challenges and to collaboratively develop solutions that support the growth and sustainability of the sector. Further, the Committee urge that the Ministry to conduct a comprehensive review of the GST framework so as to prevent the exodus of smaller businesses to States offering GST relaxations, and consider introducing targeted incentives for steel rolling mills, such as tax rebates or exemptions for a defined period, particularly for those that demonstrate compliance with GST regulations.

Compliance and Enforcement Challenges

29. The Committee note that discrepancies in reported sales and tax liabilities indicate weaknesses in compliance and enforcement mechanisms. The Ministry stated that measures such as the introduction of GSTR-3A

notices and enhanced data analytics are in place to address non-compliance. The Committee appreciate the efforts made but find that the current enforcement mechanisms are insufficient to ensure compliance effectively. The Committee are of the opinion that with advancements in information and technology, the Ministry should use of data analytics to proactively identify non-compliant taxpayers and can implement stricter penalties for repeated non-compliance, ensuring that enforcement actions are timely and effective.

Need for streamlining legal procedure to reduce Pendency of Court Cases

30. The audit revealed that a significant number of court cases related to indirect taxes are pending, with 19,730 cases involving a tax implication of ₹1,44,672.78 crore pending for investigation as of March 2022. The Committee find that, 3,663 cases (19%) with tax implication of ₹ 31,415 were pending for more than two years, indicating a backlog that could hinder revenue collection and compliance. The Ministry has acknowledged the high pendency of cases and attributed it to various factors, including the complexity of cases, the need for thorough investigations, and the impact of the COVID-19 pandemic on court operations. The Committee are concerned about the prolonged pendency of cases, which not only affects revenue collection but also undermines the effectiveness of the tax administration system. The delay in resolving these cases can lead to uncertainty for taxpayers and may discourage compliance. The Committee therefore, desire that the Ministry furnish to this Committee a statement showing details of pending court cases involving more than ₹ 1 crore.

31. The Ministry has further stated that efforts are being made to streamline the legal process, including the issuance of circulars to expedite the handling of appeals and the establishment of the GST Appellate Tribunal (GSTAT). Ministry further stated that a Circular No. 1081/202-EX dated 19.01.2022 was issued wherein field formations were instructed to file miscellaneous applications for early hearing, out of turn hearing, early decision, stay vacation, bunching of cases as per merits to reduce pendency in various appellate fora. Monetary limit for filing appeals in various fora. With respect to

legacy cases pertaining to Legacy (C.Ex. & S. Tax), Customs and GST have been enhanced, consequent to which, a total of 200 Legacy appeals & 14 Customs appeals have been dismissed by the Hon'ble Supreme Court. While the Committee appreciate the Ministry's efforts to streamline the legal process, they are concerned that the current measures may not be sufficient to address the backlog of cases effectively. The Committee therefore recommend that the Ministry may establish a case management system that allows for real-time tracking of pending cases, prioritization based on tax implications, and efficient allocation of resources. This system should facilitate better communication between various departments involved in the investigation and resolution process. Further, they also recommend that the Ministry introduce performance-based incentives for field formations and legal teams to encourage timely resolution of cases.

A Faceless GST Collection System

32. The Committee identify the need for a faceless GST collection system to enhance transparency, reduce corruption, and improve taxpayer compliance. The Ministry's response indicated that steps are being taken to implement faceless assessments and audits, but the full realization of a faceless system has not yet been achieved. The Committee are concerned that the current processes still involve significant face-to-face interactions, which can lead to inconsistencies and potential biases in tax administration. To rectify this issue, the Committee recommend that the Ministry expedite the implementation of a fully faceless GST collection system by leveraging technology to facilitate all interactions between taxpayers and tax authorities through digital platforms. This includes the establishment of a centralized online portal where taxpayers can submit documents, receive notices, and communicate with tax officials without the need for physical meetings.

33. In addition, the Committee suggest that the Ministry ensure that assessments and audits are conducted based on data analytics and risk assessments, minimizing the need for subjective judgments. The Committee

recommend that training programs be developed for tax officials to adapt to the faceless system, focusing on data-driven decision-making and effective use of technology.

Paperless System

34. The Committee note that the audit highlighted the need for a more streamlined system within the GST framework to enhance efficiency and reduce administrative burdens. The Ministry's response indicated ongoing efforts to digitize processes, such as the introduction of the Invoice Management System (IMS) and the use of e-invoicing for B2B transactions. However, the Committee are concerned that the transition to a fully paperless system has not been fully realized, leading to continued reliance on physical documentation. To rectify this issue, the Committee recommend that the Ministry prioritize complete and timely digitization of all tax-related processes, ensuring that all forms, notices, and communications are available electronically. This includes enhancing the functionality of the GST portal to allow for seamless electronic submissions and approvals, thereby eliminating the need for physical paperwork.

35. Further the Committee had noted a significant issue with the lack of access to essential records for the Audit team, which impedes their ability to fulfill their responsibilities effectively. To remedy this, they recommend that once records are digitized, auditors should be granted viewing access to these digital files so as to enhance transparency, improve the efficiency of the audit process.

GST Council

36. The Committee acknowledge that the Goods and Services Tax (GST) Council operates as a constitutional entity tasked with providing recommendations concerning the implementation of the GST in India, as delineated in Article 279A(4) of the Constitution. The Committee have noted various responses from the Ministry regarding the extent to which the GST

Council's recommendations have been considered. Furthermore, the Committee are cognizant of the Supreme Court's determination that the decisions of the GST Council are not obligatory for either the Central or State governments. Further, in the Parle Agro case, the Madras High Court highlighted that, notwithstanding the Council's assertion during its meeting that flavored milk would be subject to a higher GST rate, no formal amendment was enacted via a notification. Consequently, the Court concluded that the 'minutes of the meeting' do not possess the force of law. This ruling indicates that a similar scenario may occur if the GST Council issues clarifications through circulars instead of enacting the necessary amendments or notifications, thereby creating uncertainty for taxpayers. This judgment underscores the distinction between the advisory capacity of the GST Council and the requisite legal procedures for effectuating changes in GST rates. The Committee observe that the recommendations of the GST Council are operationalized through the appropriate circulars, notifications, or legislative amendments, which alone carry the force of law. Therefore, the Committee recommend that the Ministry establish a mechanism to ensure that final discussion on the recommendations of the GST Council are taken by the Government within a reasonable timeframe.

37. Further, the Committee desire that the Ministry develop a system to track and monitor the implementation of the notified recommendations of the GST Council in letter and spirit throughout the ranges and field formations.

Data Archival Policy

38. The Committee take note a pertinent issue discussed in an article regarding the archiving of old GST data from the GST portal starting September 30, 2024. The Ministry's stated that no data has been archived till date. All data has also been made visible to taxpayers, including for the oldest tax period under GST. Although the GST portal is scalable, GST data has been increasing rapidly every year due to the growing taxpayer base, improved compliance, and the introduction of new initiatives by the GST Council, such

as EWB and e-invoice. This substantial amount of data leads to performance issues within the GST system and deficiencies in the experience for taxpayers. Accordingly, the “Data Archival Policy for the GST System” has been approved by the GST Council. GSTN is responsible for maintaining the system for compliance with GST law, where there is a limitation on the period of assessment. The Committee are of the opinion that GST data hold paramount importance for a comprehensive understanding of the system. Therefore, the Committee urge that the Ministry should implement strong data validation protocols to ensure that all data being archived is accurate, complete, and free from errors. This should include automated checks and manual reviews to confirm data integrity before archiving. Further, the Committee recommend that the Ministry should develop a detailed metadata framework that captures essential information about the archived data, including its source, structure, any modifications made, and version control mechanisms to track changes to the data over time.

39. In addition to, the Committee feel that the Ministry should ensure accessibility of archived data for stakeholders by formulating guidelines that outline the norms for accessing archived data. This will ensure that stakeholders can utilize the information for research, policy formulation, and business analysis while maintaining compliance with data protection regulations.

40. Finally, the Committee urge the Ministry to develop a comprehensive response plan that outlines procedures for addressing data security breaches or security incidents. This plan should include immediate actions, communication strategies, and recovery processes to minimize the impact of any potential breaches. The Committee emphasize the need for the Ministry to adopt advanced AI enabled cyber-security protocols, including encryption, firewalls, and intrusion detection systems, to protect archived data from unauthorized access and cyber threats. Further, the Committee recommend that the Ministry continuously review and update security protocols to keep pace with evolving cyber threats. This includes training staff on best practices for data security and ensuring that all systems are equipped with the latest

security features and patches and archived data are easily retrievable by concerned taxpayers.

Follow up of Directorate General of Analytics and Risk Management (DGARM) reports

41. While discussing follow up of DGARM Reports, Audit highlighted a case in the Shivamogga Range under the Mysore Commissionerate, where a taxpayer was flagged by DGARM for a mismatch of ₹ 0.88 crore between GSTR-2A and GSTR-3B ITC. The taxpayer did not respond to ASMT-10, leading to a Show Cause Notice (SCN) issued under Section 74(1) for claiming ITC without a tax invoice. Further, audit highlighted that investigation of vehicle details in E-way bills in the Vahan website revealed implausible transportation of large quantities of iron using auto-rickshaws and small vehicles (24,140 kg and 24,560 kg of iron respectively), suggesting potential fraudulent ITC claims without actual receipt of inputs. This issue was raised in August 2022, and as of January 2024, response from the Ministry remained pending. The Ministry has indicated that the creation of miscellaneous Red Flag Reports by DGARM was a temporary measure during the initial phase of GST to tackle compliance verification issues and in 2022, a more thorough scrutiny of returns was implemented, along with the rollout of the Automated Return Scrutiny Module in the ACES-GST backend application. Currently, only limited theme-based reports from DGARM are being shared for review. As a result, developing comprehensive end-to-end automation at this time is deemed unfeasible. The Committee are unable to understand the reasons for non integration of the Vahan and E-way bills system to flag such discrepancies. The Committee while taking a serious note of these issues, urge the Ministry to integrate data from other Government websites to ensure that fraudulent, Input Tax Credit are not being availed. Further, the Committee also desire that a more comprehensive mechanism needs to be developed by the Ministry to ensure that the ranges take up a thorough follow up of the red flagged cases by DGARM reports.

Need for Simplification and rationalization

42. Goods and Services tax (GST) regarded as the biggest taxation reform in the indirect taxation regime, rolled out in July 2017 with the intent not only to unify the divergent and varied indirect taxes into a consolidated taxation network as one nation with one tax market but also to rationalize the tax rates and simplify the tax return filing by assesses. Since its inception, the procedures have been evolving to achieve its declared objects. The Ministry's response indicated ongoing efforts to simplify processes, such as the introduction of auto-populated forms and tutorial videos; however, the Committee are concerned that these measures may not be sufficient to address the underlying complexities. To rectify this issue, the Ministry should undertake a comprehensive review of the GST framework to identify and eliminate unnecessary procedures and requirements that complicate compliance. This includes streamlining the return filing process by consolidating forms and reducing the frequency of filings where possible. In addition to the above, the Ministry should enhance the user-friendliness of the GST portal, ensuring that it provides clear guidance and support for taxpayers at every step of the filing process. In view of the above, the Committee call for a revamped GST 2.0 after consultation with all stakeholders including trade associations and taxpayer groups to address the concerns of taxpayers and to ensure timely collection of taxes due so that the declared object of GST i.e. simplified and rationalized indirect tax system is established. Further, the Committee exhort the Ministry to consider implementing a tiered compliance approach, where smaller businesses face fewer requirements and simplified processes compared to larger entities, thereby reducing the burden on smaller taxpayers.

Positive reinforcements for honest tax-payers

43. The Committee highlight significant challenges faced by taxpayers under the GST framework, particularly concerning being the punitive measures associated with compliance failures, which can lead to criminal penalties on honest taxpayers even in cases of unintentional errors. The

Ministry's response acknowledged the government's efforts to decriminalize certain economic offenses but did not sufficiently address the need for a more supportive approach to encourage compliance among honest taxpayers. The Committee are particularly concerned that the current punitive measures may deter compliance and create an adversarial relationship between taxpayers and tax authorities. While the Committee are not against criminalization in cases of fraud but provision for arrest in the GST laws must be used sparingly. The Committee further feel that the Ministry should develop a comprehensive positive reinforcement strategy that includes incentive programs for compliant taxpayers to encourage timely and accurate GST filings.

Stakeholder Participation

44. Audit highlighted that the GST Council recommended that the proposal for comprehensive changes in GSTR-3B which is the summary return that taxpayers are required to file regularly, providing details of sales, ITC claims, tax liabilities, refunds, and other relevant information recorded under their GSTIN, be placed in the public domain for seeking inputs/suggestions of the stake holders and to bring the suggestions before the GST Council for approval in a time bound manner. Accordingly, the Board had called for suggestions from stakeholders on proposed changes in GSTR-3B (July 2022). The suggestions of the stakeholders on the proposed changes were under consideration of Ministry for submission to the GST Council as of January 2023. The Ministry in this regard stated that the various suggestions of the stakeholders have been examined by the Law Committee and keeping in mind the technical feasibility and compliance burden on the taxpayers, a number of amendments have been made including changes in Table 4 of GSTR-3B and in CGST Rules to allow population of net negative liability from FORM GSTR-1 in Table 3 of FORM GSTR-3B, Electronic Credit Reversal and Re-claimed Statement, being made available to the taxpayers from the return period of August 2023 and RCM Liability/ITC Statement, being made available from August 2024 etc. The Committee appreciate this initiative by the Ministry and are of the opinion that this mechanism need to be made a permanent feature to

ensure faster and more efficient modification of the GST system. The Committee therefore recommend that the Ministry should consider making this feedback process a permanent and dedicated feature to make the GST system interactive and more taxpayer friendly.

Taxpayer awareness campaign

45. The Committee highlighted the need for effective taxpayer awareness regarding how to accurately fill data in the GST system, noting that while the Ministry has produced tutorial videos and made them available on the CBIC YouTube channel, there remains a gap in ensuring that all taxpayers are adequately informed and trained on the processes. The Ministry's response indicates ongoing efforts to redesign the auto-population process for GSTR-9 and implement invoice-level accounting through the Invoice Management System (IMS), which is expected to improve accuracy. However, the Committee are concerned that these measures alone may not sufficiently address the challenges faced by taxpayers in understanding the system. To rectify this issue, the Ministry may enhance its outreach programs by conducting regular workshops and webinars tailored to different taxpayer segments, focusing on practical guidance for filling out returns and understanding compliance requirements. Additionally, the Ministry may consider developing interactive online training modules that allow taxpayers to practice filling out forms in a simulated environment, thereby reinforcing their understanding. The Committee also desire that the Links to tutorials for filling forms may be provided next to the options to fill the form so that they are highlighted to the tax payers when they try to fill the forms. Further, the Ministry may establish a dedicated online support service to assist taxpayers on real-time basis to resolve their queries.

46. Further, observing that there is considerable compliance burden on honest tax payers, the Committee desire that the Ministry consider implementing a scheme on the lines of Tax Return Preparer (TRP) Scheme to assist small and marginal taxpayers in preparing and filing their GST returns. The Committee are of the opinion that this will enhance tax compliance by

reducing the compliance burden on small businesses thereby enabling their integration within the GST framework.

Need for Enhanced Training and Capacity Building in Audit Commissionerates

47. The audit indicated that although there has been a substantial increase in the percentage of units audited in FY-2022 there is still a huge gap between the number of units planned and audited. The total recovery effected was 20 per cent and 21 per cent of the detected short levy in FY 20 and FY 21, respectively. However, during FY22, the total recovery effected declined to 17 per cent from 21 per cent in FY 21. Ministry, during 2021-22, had attributed the short coverage of units during internal audit to the shortage of officers in the Audit Commissionerates, especially in the grade of inspectors whose working strength was less than 50 per cent of the sanctioned strength in most of the Audit Commissionerates. In view of persistent short coverage of internal audit units due to shortage of officers in the Audit Commissionerates, Audit recommended that the Ministry may enhance the availability of human resources in the Audit Commissionerates and ensure optimal utilisation of resources for internal audit. The Ministry stated that the taxpayers are allotted for audit as per norms prescribed in the GST Audit Manual, 2023. The norms, though, prescribe various aspects to be considered while allocating taxpayers to Audit Commissionerates based on their audit capacity calculated on their working strength, the allocation until FY 2023-24 was normally being done for conducting audit covering audit period of one year. However, since year 2019-20, the taxpayers were being audited for a period covering more than one year (presently up to five years), the audit capacity of the Commissionerates was compromised due to limited availability of manpower. This resulted in the gap between the number of taxpayers allotted for audit and audited by the field formations. Now, in the year 2024-25, this issue has been addressed by allotting the taxpayers commensurate with the audit capacity of the Audit Commissionerates. In light of the findings from the audit report, the Committee recommend that the Ministry Regularly review and adjust the allocation of

taxpayers for audit based on the actual audit capacity of the Commissionerates.

48. Further, the Committee Note that the Ministry has stated that in order to address the shortfall of manpower in general in the grade of Inspector, DR vacancies have been regularly collected from CCAs and being reported to SSC for recruitment. Also, CCAs have been sensitized and directed to conduct DPCs on regular basis and to promote the officers against available PR quota vacancies. Since March 2022, CBIC has recruited 10522 officers in DR quota and 345 officers in PR quota (promoted from the feeder cadre) in the grade of Inspector. Further, 3184 DR quota vacancies in the grade of Inspector for year 2024, have already been reported to SSC for recruitment which is under process. The Committee emphasize the importance of relevant and regular training of personnel to handle complex tax cases efficiently. The Committee desire that the Ministry may prioritize the recruitment and training of personnel in the legal and audit departments. This includes developing specialized training programs focused on tax law and dispute resolution to equip officers with the necessary skills to manage cases effectively.

MIS Reports

49. The audit revealed that the Management Information System (MIS) reports related to the returns module have only been partially deployed, leading to deficiencies in monitoring mechanisms for return filing and compliance. The Ministry acknowledged the issue and stated that efforts are being made to improve documentation and monitoring through the implementation of the Antarang portal; however, the Committee are concerned that the lack of comprehensive MIS reports hampers timely action against non-filers and undermines effective tax administration. To address this issue, the Ministry should expedite the full deployment of all necessary MIS reports to ensure that range officers have access to real-time data on non-filers and compliance levels. The Committee also emphasize the need for the Ministry to explore the integration of Artificial Intelligence (AI) within the GST system to strengthen monitoring mechanisms and prevent tax evasion. The Committee

note that AI can be leveraged to analyze large volumes of tax data, identify patterns of non-compliance, detect duplicate or fraudulent claims, and flag high-risk transactions for further investigation. The Committee further recommend that machine learning models be developed to predict potential tax evasion attempts based on historical data, enabling proactive intervention.

Moreover, AI-powered automation should be utilized to streamline compliance verification processes, reducing manual workload and improving accuracy.

NEW DELHI
25 March, 2025
4 Chaitra, 1947 (Saka)

K. C. VENUGOPAL
Chairperson,
Committee on Public Accounts

**Appendix-I : State GST (SGST) collections from 2018-19 to 2021-22
(Refer Para No. 2)**

(Amount in ₹ Crore)

State	SGSTRevenue			
	FY19	FY20	FY21	FY22
Andhra Pradesh	20,611	20,227	18,871	23,809
Arunachal Pradesh	601	802	859	1,131
Assam	8,393	8,755	8,550	10,580
Bihar	15,288	15,801	16,050	19,264
Chhattisgarh	8203	7895	7925	9484
Delhi	19,187	19,465	15,676	22,263
Goa	2,529	2,439	1,985	2,758
Gujarat	34,889	34,107	29,459	43,487
Haryana	18,613	18,873	18,236	22,922
Himachal Pradesh	3,343	3,550	3,467	4,482
Jammu & Kashmir and Ladakh	5,134	2,116	4,839	6,394
Jharkhand	8,201	8,418	7,931	9,557
Karnataka	41,956	42,147	37,711	49,929
Kerala	21,015	20,447	20,028	24,170
Madhya Pradesh	18,508	20,447	17,258	22,029
Maharashtra	82,352	82,602	69,949	97,305
Manipur	695	853	867	1,126
Meghalaya	806	910	823	1,118
Mizoram	455	532	458	632
Nagaland	470	613	664	830
Odisha	11,943	13,204	13,043	16,392
Puducherry	355	782	432	1,273
Punjab	13,273	12,751	11,819	15,542
Rajasthan	22,938	21,954	20,755	27,502
Sikkim	406	455	463	656
Tamil Nadu	38,533	38,376	37,942	45,277
Telangana	23,840	23,517	22,190	28,917
Tripura	977	1,027	1,056	1,283
Uttar Pradesh	46,108	47,232	42,860	54,594
Uttarakhand	4,802	4,931	5,053	5,973
West Bengal	27,068	27,308	26,013	31,271

Source: Appendix I of Report No. 7 of 2024 (Indirect Taxes–Goods and Services Tax)

**Appendix-II List of top ten cases of non-production
(Refer Para No. 31)**

(Amount in ₹ Crore)

Sl. No.	Taxpayer	Jurisdictional zone Of CBIC	Mismatches(ITC And liability)
1	Taxpayer1	Mumbai	239.47
2	Taxpayer2	Chennai	200.64
3	Taxpayer3	Chandigarh	70.24
4	Taxpayer4	Jaipur	29.70
5	Taxpayer5	Ahmedabad	24.12
6	Taxpayer6	Ahmedabad	20.50
7	Taxpayer7	Mumbai	20.35
8	Taxpayer8	Chandigarh	17.38
9	Taxpayer9	Chennai	16.42
10	Taxpayer10	Chandigarh	12.03

Appendix-III Top ten cases of partial production (Refer Para No. 37)

(Amount in ₹ Crore)

Taxpayer	Jurisdictional zone of CBIC	List of records not produced	Mismatch Amount (ITC and Undischarged liability)
Taxpayer 1	Mumbai	Contract/Agreements, Outward and Inward invoices along with Debit and Credit notes for selected months, Fixed Asset Register, Payment/receipt vouchers, Trial Balance, Rule 42/43 reversal details, ledger details of risky transactions identified in Desk review.	241.10
Taxpayer 2	Bengaluru	Contract/Agreements, Outward and Inward invoices along with Debit and credit notes for selected months, Fixed Asset Register, Payment/receipt vouchers, Trial Balance, Rule 42/43 reversal details, ledger details of risky transactions identified in Desk review.	165.53
Taxpayer 3	Lucknow	Contract/Agreements, Outward and Inward invoices along with Debit and Credit notes for selected months, Fixed Asset Register, Payment/receipt vouchers, 3CD Report Trial Balance, Rule 42/43 reversal details, ledger details of risky transactions identified in Desk review, Stock Account, CAS-4 certificate, Input invoices, Purchase Order, Sales invoices, declared in GSTR-1, Job work Challans.	152.81
Taxpayer 4	Jaipur	Contract/Agreements, Outward and Inward invoices along with Debit and credit notes for selected months, Fixed Asset Register, Payment/receipt vouchers, Trial Balance, Rule 42/43 reversal details, ledger details of risky transactions identified in Desk review.	128.57

Taxpayer 5	Gwalior	Contract/Agreement, Outward and Inward Invoices along with Debit and Credit notes for selected months, Payment/Receipt Vouchers of selected months, Trial Balance, Account/Statement of ITC, Availed and Utilised, Ledger details of specific risky transaction identified in desk review.	126.50
Taxpayer 6	New Delhi	Contract/Agreements, Outward and Inward invoices along with Debit and Credit notes for selected months, Fixed Asset Register, Payment/receipt vouchers, Trial Balance, Rule 42/43 reversal details, ledger details of risky transactions identified in Desk review.	103.24
Taxpayer 7	Mumbai	Trial Balance, Inward invoices along with Debit and credit notes for selected months. GSTR-1 for the Period August-17 to October-17, Debtors/creditors outstanding.	94.39
Taxpayer 8	Chennai	Inward supply invoices, Outward supply, Copy of Export Bill, Bill of Entry, Reconciliation statement of ITC availed as mentioned in GSTR-9C, TRAN-1 & TRAN-2 forms, Financial statements of Taxpayer for the years 2018-19 and 2019-20, Trial Balance, Age-wise breakup of Sundry creditors ledger account invoice, Statement of the capital goods for 2017-18, Sundry Debtor and Discounts ledger accounts for 2017-18, Payment and receipt vouchers for advance payments, Export of services, Statement of FIRCs/BRCs received, Shipping bills, Export goods manifest, LUT, RFD-11, Debit notes, Credit notes, amendments to invoices, List of Refunds claimed, Purchase orders.	58.01

Taxpayer9	Mumbai	Contract/Agreements, Debit and Credit notes for selected months, Ledgers, Payment/receipt vouchers, Trial Balance, Provision for write-off and obsolescence, Fixed Asset Register. Outward invoice, Inward invoices, Account/statement of input tax credit availed / output tax, payable and paid/goods or services imported or exported/ supplies attracting payment of tax on reverse charge, List of blocked credit invoices details and Details of ITC reversal done, Details of foreign currency transactions .	56.65
Taxpayer10	Bengaluru	Contract/Agreements, Outward and Inward invoices along with Debit and Credit notes for selected months, Fixed Asset Register, Payment/receipt vouchers, Trial Balance, Rule 42/43 reversal details, ledger details of risky transactions identified in Desk review.	

APPENDIX-IV

MINUTES OF THE SITTING OF THE COMMITTEE ON PUBLIC ACCOUNTS (2024-25) HELD ON 4th OCTOBER 2024

The Committee on Public Accounts sat on Friday, the 4th of October 2024, from 1100 hrs to 1345 hrs in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri K.C. Venugopal - Chairperson

Members

LOK SABHA

2. Shri T.R. Baalu
3. Dr. Nishikant Dubey
4. Shri Jagdambika Pal
5. Shri Ravi Shankar Prasad
6. Prof. Sougata Ray
7. Smt. Aparajita Sarangi
8. Dr. Amar Singh
9. Shri Balashowry Vallabhaneni

RAJYA SABHA

10. Shri Shaktisinh Gohil
11. Dr. K. Laxman
12. Shri Sukhendu Sekhar Ray

LOK SABHA SECRETARIAT

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Muraleedharan. P - Director
3. Shri Alok Mani Tripathi - Deputy Secretary
4. Shri Pankaj Sharma - Deputy Secretary

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri S. Ramann - Dy. CAG
2. Ms. Aman Deep Chatha - Adl. Dy. CAG

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE) AND CENTRAL BOARD OF INDIRECT TAXES AND CUSTOMS (CBIC)

1. Shri Sanjay Malhotra - Secretary, Department of Revenue
2. Shri Sanjay Kumar Agarwal - Chairman, CBIC
3. Shri Shashank Priya, Member, CBIC
4. Shri Rajiv Talwar, Member, CBIC
5. Shri Vivek Aggarwal, Additional Secretary (Revenue)
6. Shri Manish Kumar Sinha, CEO, GSTN
7. Shri Pramod Kumar, EVP, GSTN
8. Shri Naval Kishore Ram, Joint Secretary (Revenue)
9. Shri Gaurav Singh, Commissioner, CBIC
10. Smt. Meenal Bhosale, Commissioner, CBIC

At the outset, the Chairperson welcomed the Members and representatives of the Ministry of Finance (Department of Revenue) and the Central Board of Indirect Taxes and Customs (CBIC) to the sitting. The session was convened to take oral evidence on the Audit observations contained in the Comptroller and Auditor General (C&AG) Report No. 7 of 2024, specifically addressing issues related to the administration and effectiveness of the Goods and Services Tax (GST) system.

2. The Officers of the C&AG briefed the Committee on key findings of the Audit report, which pointed out various inefficiencies within the GST system, particularly relating to Input Tax Credit (ITC) mismatches, delays in the implementation of simplified GST return forms, and deficiencies in monitoring tax defaulters.

3. During the discussion, Members raised numerous questions concerning key issues highlighted in the audit report. There was concern about the lack of data availability in 113 ranges out of a sample of 179, and Members asked the Ministry to furnish this crucial data for verification. Members further inquired whether the inefficiencies in the GST system, including Input Tax Credit (ITC) mismatches and the improper handling of returns, were the result of systemic failure, technological shortcomings, or reluctance from taxpayers to comply. Clarification was also sought on the actions being taken to address the multiple GST registrations under a single PAN number and measures taken to rectify such lapses in the system. In addition to the above, the Members expressed concerns about the GST notice issued to Infosys, delays in GST refunds, particularly affecting MSMEs and exporters, and sought clarity on measures being implemented to expedite the refund process. Questions were raised about the scrutiny of returns, with a particular focus on the timeline for implementing a risk-based selectivity system and interim steps to ensure effective scrutiny in its absence. The Members also asked the Ministry to explain the status of actions taken to rectify deficiencies in the GST registration module, simplification of GST return filing system and improve compliance with the rules governing GST registration. Further, Members also questioned the non-submission of Compensation Fund Accounts for several fiscal years and expressed concern over a six-year delay in providing the necessary audit data. Another significant issue was the imposition of penalties on businesses that unknowingly dealt with fraudulent suppliers, and the Members asked whether the Ministry was considering a more lenient approach to avoid penalizing honest taxpayers. In addition, Members also questioned the increasing number of GST fraud cases, particularly related to ITC claims and the role of GST officers in such fraud. Concerns were also raised regarding the rising evasion cases in emerging sectors like online gaming and steps being taken by the Ministry to address these growing issues.

4. Taking note of the concerns raised by the Committee, the representative of the Ministry of Finance (Department of Revenue) and CBIC, acknowledged the challenges identified by the audit and assured the Committee that steps would be taken to address the key issues. The representative of the Ministry of Finance (Department of Revenue) and CBIC outlined ongoing efforts to improve ITC reconciliation, enhance the automation of GST compliance and reduce delays in processing refunds. The Committee were also apprised that enforcement actions were being intensified to tackle GST fraud, including penalties and recoveries from violators, and assured that steps were being taken to strengthen the system.

5. Thereafter, the Chairperson asked the representatives of the Ministry of Finance (Department of Revenue) and CBIC to furnish the information that was not readily available with them along with the replies to the List of Points being sent to them by the Committee Secretariat within fifteen days. The Verbatim Proceedings have been kept.

The Committee then adjourned.

MINUTES OF THE SIXTEENTH SITTING OF THE COMMITTEE ON PUBLIC ACCOUNTS (2024-25) HELD ON 25 MARCH, 2025

The Committee on Public Accounts sat on Tuesday, the 25 March, 2025 from 1000 hrs to 1030 hrs in Room No. 51, Hon'ble Chairperson's Chamber, Samvidhan Sadan, New Delhi.

PRESENT

Shri K.C. Venugopal - Chairperson

Members

LOK SABHA

2. Shri T. R. Baalu
3. Shri Jai Parkash
4. Shri Ravi Shankar Prasad
5. Shri C. M. Ramesh
6. Shri Magunta Sreenivasulu Reddy
7. Smt. Aparajita Sarangi
8. Dr. Amar Singh
9. Shri Tejasvi Surya
10. Shri Anurag Singh Thakur

RAJYA SABHA

11. Shri Shaktisinh Gohil
12. Dr. K. Laxman
13. Shri Tiruchi Siva
14. Shri Sudhanshu Trivedi

LOK SABHA SECRETARIAT

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Muraleedharan. P - Director
3. Shri Alok Mani Tripathi - Deputy Secretary
4. Shri Pankaj Kumar Sharma - Deputy Secretary
5. Shri Atul Bhawe - Deputy Secretary
6. Smt. Malvika Mehta - Deputy Secretary

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Dr. Kavita Prasad - Director General
2. Shri Ashutosh Sharma - Director General
3. Shri Samar Kant Thakur - Director General

At the outset, Hon'ble Chairperson welcomed the Members and Officers of the office of C&AG of India to the sitting of the Committee. Thereafter, Hon'ble Chairperson stated that the following three draft reports may be taken up for consideration and adoption:-

- (i) Draft report on “**Compliance Audit of Central Board of Indirect Taxes and Customs (CBIC)**” based on C&AG Report No. 7 of 2024;
- (ii) Draft report on “**Sub optimum utilization of the capacities of GSAT-18 Satellite**” based on Para 2.2 of C&AG Report No. 24 of 2023; and
- (iii) Draft report on “**Short closure of project for development of Special Grade Carbon Fibre**” based on Para 2.3 of C&AG Report No. 24 of 2023.

2. After some deliberations, the Committee adopted the aforesaid Draft Reports with some modifications in the Report at Sl. No. (i) and authorised the Chairperson to finalise the Reports in the light of factual verification done by the Audit.

The Committee then adjourned.