Unleashing the Power of Python Automation GST Returns Reconciliation

Executive Summary

The Goods and Services Tax (GST) has transformed the Indian tax landscape by introducing a comprehensive indirect tax regime. However, the complex nature of GST compliance has led to challenges for businesses in maintaining accurate records and reconciling their GST returns. GST is a value-added tax (VAT) levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services

This whitepaper delves into the intricacies of GST return reconciliation for Indian businesses, highlighting its significance, outlining the process, and providing insights into best practices.

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Introduction

The goods and services tax (GST) is an indirect tax levied on the sale of certain goods and services in India. Businesses are responsible for collecting the GST from customers and remitting it to the government.

A GST return is a form that GST-registered businesses must file with the tax authorities. The return provides details of the business's income from sales and expenses from purchases. The tax authorities use this information to calculate the business's net GST liability.

Under GST, a registered dealer has to file GST returns that broadly include:
- Purchases
- Sales
- Output GST
- Input tax credit (GST Paid on purchases)

There are 13 returns under GST. However, all returns do not apply to all taxpayers. Besides the GST returns that are required to be filed, there are statements of input tax credit available to taxpayers, namely GSTR-2A (dynamic) and GSTR-2B (static).

In particular, this process is aimed at reconciliation for GSTR-1, GSTR-2B and GSTR-3B to make sure that all books match in order to ensure that the organization meets all compliance requirements.

Significance

GST return reconciliation is a crucial process that ensures the accuracy and integrity of a business's GST compliance. It involves matching data from various sources, including invoices, sales and purchase registers, and GST returns, to identify any discrepancies or errors. Thorough reconciliation helps businesses is important for the following reasons:

- Tax Accuracy: Reconciliation ensures that the correct GST liability is determined, preventing unintentional tax underpayment or overpayment

- Compliance Adherence: Accurate reconciliation demonstrates compliance with GST regulations, minimizing the risk of penalties or legal action

- Financial Control: Reconciliation provides insights into cash flow and tax liabilities, enabling better financial planning and decision-making

Challenges

In our practice, we have observed certain challenges in the process of GSTR reconciliation that businesses are commonly presented with. This section outlines these problems in detail for your understanding to set context for AGT's Python-based solution.

1.Manual reconciliation

Manual reconciliation involves comparing data from different sources, such as invoices, sales and purchase registers, and GST returns, manually for large volumes of transactions. Also, this process has to be done repeatedly, each month, bearing significant risk of errors.

2.Lack of system integration

Many businesses use different software systems for accounting, ERP, and GST compliance. This lack of system integration makes it difficult to automate the reconciliation process and can lead to data duplication and inconsistencies.

3.Complex GST rules

GST is a complex tax regime with multiple tax rates and exemption rules. This can make it difficult for businesses to accurately determine their GST liability and reconcile their returns.

4.Identification of ineligible tax credits

Right now, identifying ineligible Input Tax Credits (ITC) often relies on catching them after they've entered the system, triggered by questions from the business team. This reactive approach leaves us vulnerable to reconciliation headaches and potential compliance issues.

5.Late amendments by suppliers

Suppliers may make amendments to invoices or other documents after submission to the GST portal. This can cause discrepancies between the data in the GST portal and the businesses own records.

6.Lack of expertise

Some businesses may not have the in-house expertise to manage GST reconciliation effectively. This can lead to errors and omissions in the reconciliation process, having serious compliance implications.

7.Financial losses

Any errors or delays in filing GST Returns can lead to financial losses in the form of penalties or as lapse of credit amount that a company may be eligible for.
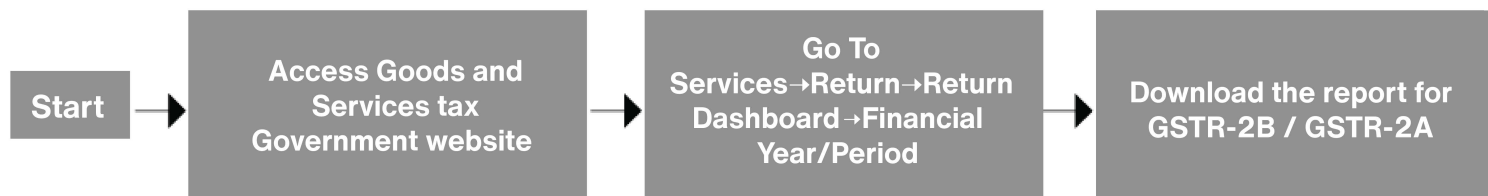
Benefits to Your Organization

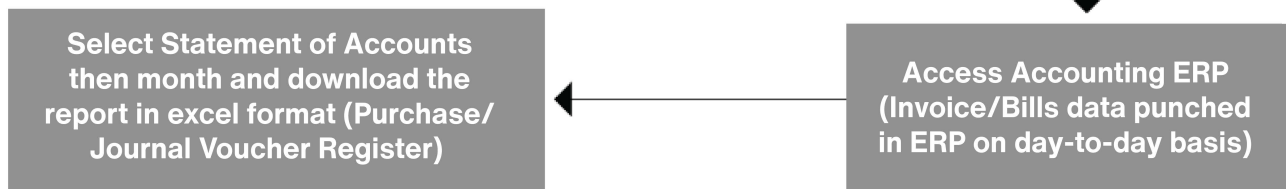Adopting an automated GST reconciliation solution built on Python offers a plethora of benefits:

1. Cost-Effectiveness: Forget about expensive software licenses. Python automation leverages readily available libraries, saving you money.

2. Efficiency Unbound: Eliminate month-end peak load bottlenecks and streamline reconciliation processes, freeing up valuable time and resources.

3. Seamless Integration: No need to disrupt your existing IT infrastructure. Python integrates seamlessly with your current systems, ensuring a smooth transition.

4. Transparency & Compliance: Maintain a robust audit trail through comprehensive logging and reporting, promoting transparency and ensuring compliance with regulatory requirements.

By automating GST reconciliation with Python could lay the foundation for a more streamlined and secure financial future. (Figure below illustrates a sample process that can be automated end-to-end with the Python solution.)
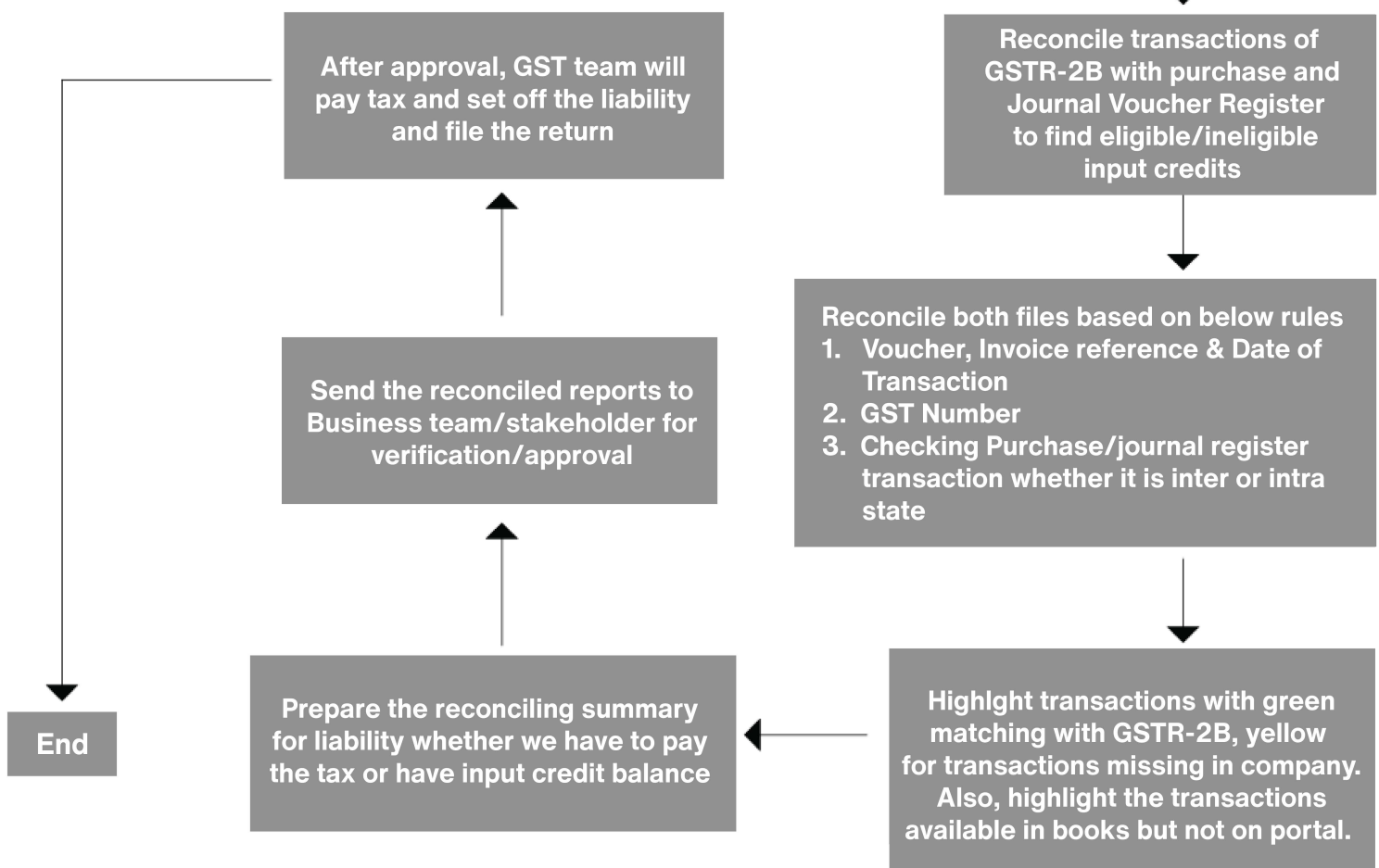
Goods and Services Tax Goverment website

Start → **Access Goods and Services tax Government website** → **Go To Services→Return→Return Dashboard→Financial Year/Period** → **Download the report for GSTR-2B / GSTR-2A**

ERP System

Select Statement of Accounts then month and download the report in excel format (Purchase/Journal Voucher Register) ← **Access Accounting ERP (Invoice/Bills data punched in ERP on day-to-day basis)**

Reconciliation Process

Reconcile transactions of GSTR-2B with purchase and Journal Voucher Register to find eligible/ineligible input credits

Reconcile both files based on below rules
1. Voucher, Invoice reference & Date of Transaction
2. GST Number
3. Checking Purchase/journal register transaction whether it is inter or intra state

Highlght transactions with green matching with GSTR-2B, yellow for transactions missing in company. Also, highlight the transactions available in books but not on portal.

Prepare the reconciling summary for liability whether we have to pay the tax or have input credit balance

Send the reconciled reports to Business team/stakeholder for verification/approval

After approval, GST team will pay tax and set off the liability and file the return

End

Glossary

1. GST: Goods and Services Tax

2. CGST: Central Goods and Services Tax

3. SGST: State Goods and Services tax

4. IGST: Integrated Goods and Services Tax

5. B2B: Business to Business

6. GSTR-1: GSTR-1, a monthly/quarterly report for GST taxpayers, includes sales details and must be filed by the 11th of the next month. It provides downloadable summaries of sales, credit/debit notes, exports, and HSN data in Excel format.

7. GSTR-2A: GSTR-2A served as a verification tool, allowing businesses to cross-check their purchase records with GSTN data to ensure accuracy. This comparison helped identify discrepancies and missing invoices, ensuring the correct claim of input tax credit.

8. GSTR-2B: GSTR-2B offers a monthly summary of valid and invalid Input Tax Credits, independent of supplier changes after the respective month. It simplifies reconciliation, aiding accurate credit management and application of reverse charges.

9. Note: This statement should be downloaded after 13th of next Month

10. GSTR-3B: This part of statement can be downloaded from application in which the organization is maintaining their accounts. In this case, the team is downloading the report in excel format from ERP for the month required. This part of statement should be reconciled with GSTR-2B. After filing the return, the same transactions will reflect in GSTR-2B. The team do reconciliation of GSTR-3B (Books for sale and purchase) and GSTR-2B. This activity is completed on monthly basis.

About
AG Technologies

AG Technologies headquartered in Mumbai is a human-centered digital transformation company that focuses on creating value for our stakeholders through the integration of people, processes, and technology.