

## GST COMPLIANCE RATINGS

*Dr. Sanjiv Agarwal*

*FCA, FCS*

GST law provides for Goods and Services Tax Compliance Rating which is a new concept in India. Presently, there is no system of compliance rating under any tax laws in India. GST compliance rating is a concept which will be experimented as a legal provision for the first time in our country. Accordingly, every taxable person shall be assigned a GST compliance rating score based on his record of compliance with the provisions of the GST Act. Every taxable person irrespective of its nature or size or turnover shall be assigned a GST compliance rating.

As a governance issue, it is a fact that taxes and their compliances are increasingly being discussed at board level.

### **Statutory Provisions**

Section 149 of the Central Goods and Services Tax Act, 2017 contains provision in respect of GST compliance rating as under:

- "(1) Every registered person may be assigned a goods and services tax compliance rating score by the Government based on his record of compliance with the provisions of this Act.
- (2) The goods and services tax compliance rating score may be determined on the basis of such parameters as may be prescribed.
- (3) The goods and services tax compliance rating score may be updated at periodic intervals and intimated to the registered person and also placed in the public domain in such manner as may be prescribed."

Similar provision on GST rating shall also be applicable to other forms of GST, i.e.,

IGST Act, 2017	Section 20 which stipulate that provisions of CGST Act, 2017 shall apply <i>mutatis mutandis</i> to IGST Act
UTGST Act, 2017	Section 21 which stipulate that provisions of CGST Act, 2017 shall apply <i>mutatis mutandis</i> to UTGST Act
SGST Act, 2017	Section 171 on anti-profiteering measures.

The objective of section 149 is to provide for the assignment and provision of parameters for Good and Service Tax compliance rating.

Accordingly, it can be said that:

- GST compliance rating is a new concept in GST. All the taxable persons will be assigned rating scores on the basis of his record of compliance of provisions of the GST law.
- The various compliance parameters on which the performance will be evaluated would be prescribed.
- The compliance rating scores would be updated on periodical basis and would be intimated to the taxable person and also the information of which would be put in public domain.

#### **Salient features of Compliance Rating**

- Every taxable person shall be assigned a GST compliance rating score based on his record of compliance with the provisions of the GST Act irrespective of its nature or size or turnover.
- Compliance rating scores could be based on
  - ✓ promptness of paying taxes,
  - ✓ timely e-filing of returns,
  - ✓ matching of transactions,
  - ✓ transparent reconciliations,
  - ✓ adherence to various time limits,
  - ✓ cooperation in dealing with tax department etc.
- It is expected that GST compliance rating scores may be used for identifying compliant tax payers which may get

- better administrative treatment or response,
- ascertaining risk profile of tax payers, data integrity / audit of tax payers records,
- selection of cases for audit or scrutiny etc.
- A taxable person with higher rating may be given certain privileges while a lower rating may invite enhanced surveillance. This may also instill healthy competition amongst tax payers for attaining a higher rating leading to enhanced reputation and as an indicator of good governance.

### **Analysis**

The GST compliance rating score shall be determined on the basis of parameters to be prescribed in this behalf. Compliance rating scores could be based on promptness of paying taxes, timely e-filing of returns, matching of transactions, transparent reconciliations, adherence to various time limits, cooperation in dealing with tax department etc.

The rating of a taxable person would be relevant to determine the eligibility of input tax credit in respect of inward supplies, selection for scrutiny and other administrative / monitoring purposes. The rating would be based on tax payer's record of compliance with the provisions of CGST, IGST and SGST. The details of parameters and methodology for rating would be as prescribed.

The compliance rating score will be updated periodically and will be intimated as follows:

- to the taxable person
- will be placed in the public domain

In terms of sub-section (3) of section 149 of the CGST Act, 2017, the GST compliance rating score shall be updated at periodic intervals and intimated to the taxable person and also placed in the public domain in the manner prescribed. The parameters and criteria as well as methodology shall be prescribed by way of regulations / guidelines.

Since GST shall operate on electronic platform, GSTN may be entrusted with the responsibility of determining rating scores based on parameters, its periodic updating

and publication of rating in public domain. However, regulations or guidelines stipulating criteria for compliance ratings are expected to be announced in due course.

It is expected that GST compliance rating scores may be used for identifying compliant tax payers which may get better administrative treatment or response, ascertaining risk profile of tax payers, data integrity / audit of tax payers records, selection of cases for audit or scrutiny etc. A taxable person with higher rating may be given certain privileges while a lower rating may invite enhanced surveillance. This may also instill healthy competition amongst tax payers for attaining a higher rating leading to enhanced reputation and as an indicator of good governance.

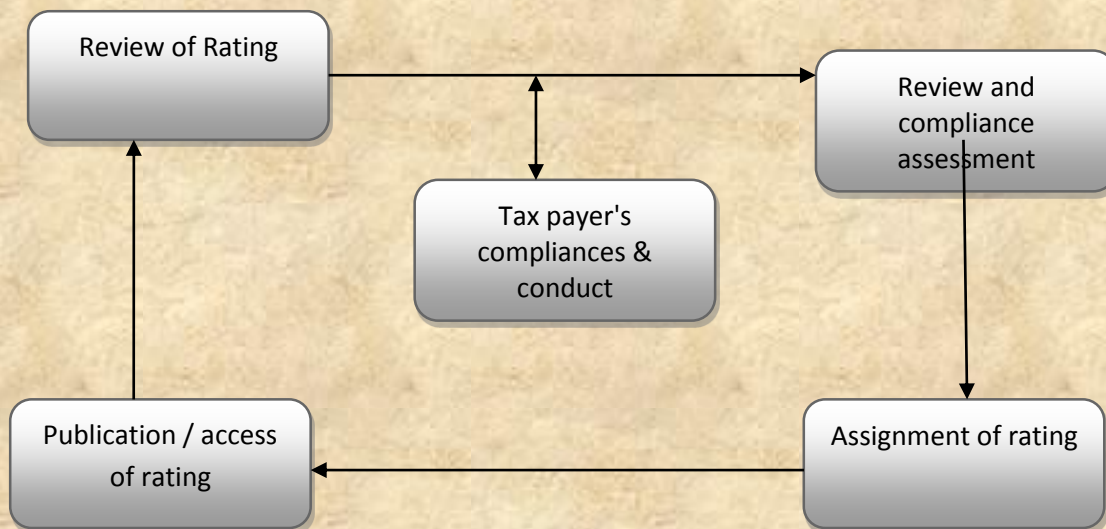
Since the compliance ratings would be placed in public domain, businesses or dealers would be able to take informed decision to deal with the lesser complaint taxable person. A highly rated taxable person would be preferred over others. It would also add to efficiency of transactions, timely input tax credit and lessee hurdles in reconciliations. It would also add to organization's reputation. Large organizations and rated or listed companies including PSU's may prefer and choose to deal with good rated suppliers / vendors / enterprises.

The GST compliance scores will primarily be based on compliances with law and rules. These could cover, *inter alia*, the following:

- Filing of appeals on a monthly basis
- Matching of transactions, i.e., no mismatch of invoices
- Filing of regular and annual returns timely and correctly
- Timely payment of proper taxes
- Correct utilization of input tax credit and its disclosure
- Correct deduction of TDS / TCS, wherever applicable
- Findings in scrutiny of returns / audit findings
- Refund claims etc.

These ratings are expected to be measured at periodic intervals of tax payers and their dissemination on a public platform.

### GST COMPLIANCE RATING FLOW



### Impact of GST Ratings

GST ratings would allow business enterprises to choose the most GST compliant or better rated vendor for their businesses. Rating would help identifying as to which vendor has got the better or acceptable track record of paying taxes in time, who matches / responds to mismatch of transactions etc. so much so that higher or better the rating score, more it would be preferred by buyers. Better ranked or rated taxpayers would have advantages over others by way of following benefits:

- 1) Enjoy trust of tax authorities
- 2) Honour and respect by the tax department
- 3) No locking up of otherwise allowable input credit
- 4) Preferred supplier chosen by buyers
- 5) Add to good governance aspects of organization
- 6) Reputation built up
- 7) Preferences/ privileges by the department (not known now)

GST compliance ratings are expected to bring a new culture of compliance which will not only ensure fullest and correct compliances but will also result in avoidance of tax evasion and lesser tax disputes and litigation.

---