

Chapter-II

Department's Oversight on GST Payments and Return Filing (Stage-II)

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2.1 Introduction

Goods and Services Tax (GST) has replaced multiple taxes levied and collected by the Centre and States. The GST, which came into effect from 1 July 2017, is a destination-based consumption tax on the supply of goods or services or both levied on every value addition. The Centre and States simultaneously levy GST on a common tax base. Central GST (CGST) and State GST (SGST) /Union Territory GST (UTGST) are levied on intra state supplies, and Integrated GST (IGST) is levied on inter-state supplies.

Section 59 of the Punjab Goods and Services Tax Act, 2017 stipulates GST as a self-assessment based tax, whereby the responsibility for calculating tax liability, discharging the computed tax liability and filing returns is vested with the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has no tax liability during a particular tax period, it must file a nil return mandatorily. Further, Section 61 of the Act read with Rule 99 of Punjab GST Rules stipulates that the proper officer may scrutinise the returns and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up as a continuation of the SSCA conducted during the year 2022-23 (Phase-I), considering the significance of the control mechanism envisaged for tax compliance and oversight mechanism of the Department of State Taxes of the Punjab in this new tax regime.

2.2 Organisational setup

The Additional Chief Secretary-cum-Financial Commissioner (Taxation) is overall in-charge of the Department of State Taxes in Punjab. The Department administers Goods and Services Tax as well as Punjab Value Added Tax Act/Central Sales Tax Act in the State, subject to overall control and superintendence of the Commissioner of State Tax with the help of Director (GST) and Additional Commissioner of State Tax at Headquarters, Deputy Commissioners of State Tax at the divisional level and Assistant Commissioners of State Tax, State Tax Officers and other allied staff at the district level.

2.3 Audit objectives

This audit was oriented towards providing assurance on the adequacy and effectiveness of systems and procedures adopted by the Department with respect to tax compliance under the GST regime. Audit of 'Department's

oversight on GST Payments and Return filing (Stage-II)' was taken up with the following audit objectives to seek an assurance on:

- i. Whether the rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and
- ii. Whether the scrutiny procedures, internal audit and other compliance functions of the field formations (Circles) were adequate and effective.

2.4 Audit methodology and scope

This SSCA was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period April 2018 to March 2021. Through data analysis, a set of 17 deviations were identified across the domains of input tax credit, discharge of tax liability, registration and return filing. Such deviations were followed up through a centralised audit¹, whereby these deviations were communicated to the Department and action taken by the Department on the identified deviations was ascertained without involving field visits. The centralised audit was supplemented by a detailed audit involving field visits for verification of records available with Circles. Returns and related attachments and information were accessed through GST portal at Commissionerate office. The detailed audit also involved accessing relevant granular records from the taxpayers such as invoices through the respective Circles. Additionally, compliance functions of the Circles such as scrutiny of returns, were also reviewed in selected Circles.

The verification of taxpayer's records covered the period from April 2018 to March 2021, while the audit of the functions of selected Circles covered the period from April 2020 to March 2021 for examination of action taken by the Department on cancellation of registration, non-filers of returns and similar reports. Audit also covered the scrutiny of returns done by the Department under Section 61 of Punjab GST Act in the year 2022-23. The SSCA covered only the State administered taxpayers. The field audit was conducted between September 2023 and December 2023.

An entry conference of this SSCA was held on 17 April 2023 with the Secretary (Taxation) and Department's officers in which the audit objectives, sample selection, audit scope and methodology were discussed.

An exit conference was held on 30 May 2024 with the Director (GST) to seek the responses of the Department on the audit points. The views expressed by the Department in the exit conference and replies to audit paragraphs furnished subsequently have been incorporated in the report.

¹ Centralised Audit did not involve seeking taxpayer's granular records such as financial statements related ledger accounts, invoices, agreements etc.

2.5 Audit Sample

A data-driven approach was adopted for planning to determine the nature and extent of substantive audit. The sample for this SSCA comprised a set of deviations identified through data analysis for centralised audit that did not involve field visits; a sample of taxpayers for detailed audit that involved field visits and scrutiny of taxpayer's records at Department's premises; and a sample of Circles for evaluating the compliance functions of the Circles.

There were *three* distinct parts of this SSCA as under:

Part I-Audit of Circles

Ten Circles with jurisdiction over selected sample of cases for detailed audit were considered as the sample of Circles for evaluation of their oversight functions.

Part II-Centralised Audit

The sample for 'Centralised Audit' was selected by identification of high-value or high-risk deviations from rules and inconsistencies between returns through data analysis for evaluation of the adequacy and effectiveness of the scrutiny procedure of the Department. Accordingly, 366 cases which translated into 654 instances were selected for 'Centralised Audit' under this SSCA.

Part III-Detailed Audit

Audit accessed taxpayers' records through Circles for evaluation of the extent of tax compliance by the taxpayers. The sample of taxpayers for 'Detailed Audit' was selected on the basis of risk parameters such as excess input tax credit, tax liability mismatch, disproportionate exempted turnover to total turnover and irregular input tax credit reversal. A sample of 70 taxpayers selected for 'Detailed Audit' comprised of large, medium, small strata and parameter based taxpayers².

The details of sampled Circles, taxpayers for 'Centralised Audit' and 'Detailed Audit' for this SSCA are brought out in **Appendix 2.1**.

2.6 Audit Criteria

The source of audit criteria comprised the provisions contained in the Central GST Act, Punjab GST Act, IGST Act, and Rules made thereunder. The significant provisions are given in **Table 2.1**.

Table 2.1: Source of criteria

Sr. No.	Subject	Act and Rules
1.	Levy and collection	Section 9 of Punjab GST Act, 2017
2.	Reverse Charge Mechanism	Section 9(3) of Punjab GST Act, 2017

² Large taxpayers: 28, medium taxpayers: 11, small taxpayers: 0 and parameter-based taxpayers: 31

Sr. No.	Subject	Act and Rules
3.	Availing and utilising ITC	Sections 16 to 21 of Punjab GST Act, 2017 Rules 36 to 45 under Punjab GST Rules, 2017
4.	Registrations	Section 22 to 25 of Punjab GST Act, 2017 Rules 8 to 26 of Punjab GST Rules, 2017
5.	Supplies	Section 7 and 8 Punjab GST Act, 2017 Schedule I, II and III of Punjab GST Act, 2017
6.	Place of supply	Section 10 to 13 of IGST Act, 2017
7.	Time of Supply	Section 12 to 14 of Punjab GST Act, 2017
8.	Valuation of supplies	Section 15 of Punjab GST Act, 2017 Rules 27 to 34 of Punjab GST Rules, 2017
9.	Payment of Tax	Sections 49 to 53 of Punjab GST Act, 2017 Rules 85 to 88A of Punjab GST Rules, 2017
10.	Filing of GST Returns	Sections 37 to 47 of Punjab GST Act, 2017 Rules 59 to 68 and 80 to 81 of Punjab GST Rules, 2017
11.	Zero-rated supplies	Section 16 of IGST Act, 2017
12.	Assessment and Audit functions	Sections 61, 62, 65 and 66 of Punjab GST Act, 2017 Rules 99 to 102 of Punjab GST Rules, 2017

In addition, the notifications and circulars issued by CBIC³/Punjab Taxation Department relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing returns, rates of tax on goods and services, payment of tax, availing and utilising input tax credit, scrutiny of returns and oversight of tax compliance and Standard Operating Procedures (SOP) containing instructions to the departmental officers on various aspects related to filing returns, scrutiny of returns, cancellation of registrations and verification of DGARM⁴ reports etc. also formed part of the audit criteria.

2.7 Audit findings

The audit findings may be categorised into the following three categories:

- Oversight on returns filing
- Oversight on tax payments
- Other oversight functions

2.7.1 Oversight on returns filing

A return is a statement of specified particulars relating to the business activity undertaken by a taxpayer during a prescribed period. Every taxpayer is legally obligated to furnish a complete and correct return, mentioning the tax liability for a given period and taxes paid within the stipulated time. In a self-assessment regime, the significance of monitoring return filing by the taxpayers acquires

³ Central Board of Indirect Taxes and Customs

⁴ Director General of Analytics and Risk Management

greater significance as the returns are the first mode of information about taxpayers and their respective business activities.

2.7.1.1 Scrutiny of returns

As per Section 61 of the Punjab GST Act, 2017, various returns filed by taxpayers may be scrutinised by the proper officer to verify the correctness of the returns, and suitable action has to be taken on discrepancies or inconsistencies reflected in the returns. Under the Circles, the proper officer designated for this purpose is the State Tax Officer in-charge of the jurisdictional ward. Further, Rule 99 of the Punjab GST Rules, 2017 mandates that the discrepancies, if any, noticed shall be communicated in form GST ASMT-10 to the taxpayer to seek his explanation.

The Department issued Standard Operating Procedure (SOP) in April 2022 to ensure uniformity in methodology of scrutiny of returns and other related procedures. As per SOP, the selection of returns for scrutiny is based on specific risk parameters i.e., data analysis with pre-defined parameters for a particular financial year. Basic data relevant for scrutiny is auto populated by ETTSA⁵ from various data sources like GSTN⁶ and Data Mining Wing. ETTSA had developed a web-based scrutiny application PGEIU⁷ showing ward-wise GSTINs, whose returns are to be scrutinised.

Audit sought (August 2023) Circle wise information from the Department for scrutiny of cases allotted and carried out in 2022-23 and details of actions taken against such cases like issue of ASMT-10 notices, show cause notices and recoveries. The Department did not provide information for cases selected for scrutiny and number of cases where scrutiny was completed during 2022-23 despite repeated reminders issued to the Department between August and December 2023. However, as per partial information provided (September 2023) by the Department, ASMT-10 notices in 5,149 cases were issued under the sample ten Circles as detailed in **Table 2.2**.

Table 2.2: Details of ASMT-10 issued in sample Circles

Sr. No.	Circle	No. of cases where ASMT-10 issued	No. of cases where discrepancy accepted by the taxpayer	Amount recovered (₹ in crore)
1.	Amritsar-I	819	435	0.24
2.	Amritsar-II	991	641	0.26
3.	Fazilka	178	70	0.81
4.	Gurdaspur	383	202	0.33
5.	Hoshiarpur	586	429	0.32
6.	Jalandhar-III	988	450	0.20

⁵ Excise and Taxation Technical Services Agency (ETTSA) is a society created by the Government of Punjab for computerisation of Excise & Taxation Department.

⁶ Goods and Service Tax Network

⁷ Punjab GST Enforcement and Investigation Unit Portal.

Sr. No.	Circle	No. of cases where ASMT-10 issued	No. of cases where discrepancy accepted by the taxpayer	Amount recovered (₹ in crore)
7.	Mansa	188	177	1.18
8.	Moga	217	136	0.60
9.	Pathankot	230	186	2.14
10.	Ropar	569	347	0.20
Total		5,149	3,073	6.28

From the data provided by the Department, no assurance could be derived in Audit on the pace of scrutiny of returns.

The information of scrutiny cases was also called for from the Department and selected ten Circles. The Department provided the list of total scrutiny cases and four Circles⁸ provided only list of ASMT-10 notices issued without mentioning granular details sought like date of ASMT-10, 11, 12 etc., and remaining six Circles provided only case files but no list of ASMT-10 notices issued was provided. Thus, Audit could not ascertain whether the Department had carried out scrutiny of returns as envisaged in their SOP.

Further Audit examined⁹ five cases each of ASMT-10 notices issued by the selected Circles totaling 50 cases and observed shortcomings in five cases involving tax implication of ₹ 0.35 crore¹⁰ as explained below.

A Non-payment of tax under reverse charge on purchase of raw cotton

Punjab Government in December 2017 notified¹¹ that tax on the purchase of raw cotton from agriculturist was payable by the recipient of the intra-State supply on reverse charge basis under Section 9(3) of Punjab GST Act, 2017. The reverse charge on raw cotton was applicable with effect from 15 November 2017. The tax at the rate¹² of five *per cent* was payable on the raw cotton.

Audit examined (October 2023) a scrutiny case for the year 2017-18 conducted under Mansa Circle and noticed that ASMT-10 notice was issued to the taxpayer on 18 October 2022 for failing to pay tax of ₹ 0.17 crore¹³ under reverse charge against purchase of raw cotton of ₹ 3.45 crore from the unregistered persons during 2017-18. In response, the taxpayer through ASMT-11 replied that all tax liabilities were paid in cash but due to clerical mistake, neither tax liability was shown under reverse charge nor input tax credit was claimed, hence there was no financial difference in payment of tax. The proper officer accepted the response of the taxpayer and closed the case by citing that the taxpayer had paid

⁸ Amritsar-II, Fazilka, Jalandhar-III and Pathankot

⁹ On the basis of top five cases of money value or files provided by the Circle concerned.

¹⁰ **Para 2.7.1.1: A** ₹ 0.17 crore, **B** ₹ 0.02 crore, **C** ₹ 0.13 crore, **D** ₹ 0.03 crore, **E** Non-money value para

¹¹ PGST Notification: S.O.100/P.A.5/2017/S.9/2017 dated 1 December 2017, CGST Notification: 43/2017-Central Tax (Rate) dated 14 November 2017

¹² PGST Notification: S.O.16/P.A.5/2017/S.9/2017 dated 30 June 2017, CGST Notification: 1/2017-Central Tax (Rate) dated 28 June 2017

¹³ ₹ 3,45,04,467 x 5 *per cent* = ₹ 17,25,223 (CGST: ₹ 8,62,611.50 plus Punjab GST: ₹ 8,62,611.50)

tax in cash and no input tax credit was claimed by the dealer. Hence, there is no loss of Government revenue.

Further audit examination of annual summary of taxpayer's returns for 2017-18 showed that taxpayer had neither shown purchase of raw cotton of ₹ 3.45 crore in GSTR-3B returns nor in the annual return GSTR-9. However, outward supply of ₹ 3.53 crore was declared in GSTR-1, GSTR-3B and GSTR-9.

The version of the proper officer and the taxpayer that tax was paid in cash without availing input tax credit was not supported by the returns and the cash ledger because no tax in cash was paid on purchase of ₹ 3.45 crore under reverse charge. The tax in cash under reverse charge was paid only on ₹ 0.62 crore as shown by the taxpayer in his returns. The taxpayer had shown outward supply of ₹ 3.53 crore, therefore even after considering the payment of tax at the time of outward supply, Audit opines that there can be loss of interest to the Government in such cases because there can be gap between purchases liable to reverse charge and subsequent outward supplies. Therefore, the tax which should have been paid at the time of purchase cannot be justified by the tax payment at a later date at the time of making outward supplies.

On being pointed out (October 2023), no reply was furnished by the Mansa Circle (January 2025).

B *Non-payment of interest due on delayed payment of tax*

As per proviso below Section 50(1) of the Punjab GST Act, 2017, an interest of 18 *per cent* per annum shall be paid on the portion of tax, which is paid after the due date of tax period by debiting the electronic cash ledger.

Audit examined (October 2023) a scrutiny case for the year 2017-18 conducted under Mansa Circle and noticed that ASMT-10 notice to the taxpayer was issued on 17 October 2022 seeking clarification on the short payment of output tax liability of ₹ 0.27 crore. Due to non-response of the taxpayer on ASMT-10 notice, the proper officer issued DRC-01A notice to the taxpayer on 2 March 2023. In response to this notice, the taxpayer stated that liability of ₹ 0.32 crore has been paid in the return of July 2018. The tax liability was not updated in February 2018 return due to clerical mistake but at the time of finalisation of books, same was rectified in the return of July 2018. The proper officer accepted the reply of taxpayer and closed the case by citing that the tax was set off with input tax credit. Hence, no interest liability arises.

Audit examination of the Electronic Credit Ledgers of the taxpayer for the years 2017-18 and 2018-19 revealed (October 2023) that the tax liability of February 2018 was discharged on 7 September 2018 after declaring the liability in the return of July 2018. Audit observed that taxpayer had not continuously maintained minimum balance of ₹ 0.32 crore in the Electronic Credit Ledger

after the due date¹⁴ for filing the return of February 2018 till the date of discharge of tax liability, hence, proper officer's decision not to charge the interest was incorrect. An interest of ₹ 0.02 crore was chargeable on the delayed payment of tax on such portion of amount, which was difference between tax liability and balance maintained in the Electronic Credit Ledger because the due tax liability could not have been discharged from Electronic Credit Ledger without making payment in cash for the deficient portion. However, the proper officer ordered not to charge the interest from the taxpayer.

On being pointed out (October 2023), no reply was furnished by the Mansa Circle (January 2025).

C *Non-payment of interest on wrongly availed and utilised input tax credit*

Section 42(10) and 43(10) of the Punjab GST Act, 2017 provide that taxable person who claims undue or excess claim of input tax credit or undue or excess reduction in output tax liability, shall pay interest at the rate of 18 *per cent*¹⁵ specified under Section 50(3) of the Act on such undue or excess claim or undue or excess reduction. Further, Section 50(3) of the Punjab GST Act was amended¹⁶ in October 2022 making amendment that interest was required to be paid on the wrongly availed input tax credit if the same was availed as well as utilised.

Audit examined (November 2023) a scrutiny case for the year 2017-18 conducted under Ropar Circle and noticed that ASMT-10 notice to the taxpayer was issued on 9 September 2022 seeking clarification on the short reversal of input tax credit on exempted outwards supplies. In response, the taxpayer reversed the input tax credit of ₹ 0.18 crore¹⁷ on 26 October 2022 through DRC-03 and paid interest of ₹ 46,945. The proper officer found the response of the taxpayer to be satisfactory and closed the case.

Audit worked out the interest of ₹ 0.09 crore from 1 April 2018¹⁸ to 25 October 2022 on the basis of deficient amount maintained in the Electronic Credit Ledger against the due reversal of ₹ 0.18 crore. The interest worked out to ₹ 0.09 crore¹⁹ but the taxpayer had paid interest of ₹ 46,945 resulting in short payment of interest of ₹ 0.09 crore²⁰.

¹⁴ Due date for filing return of February 2018 was 20 March 2018.

¹⁵ Rate of interest amended from 24 *per cent* to 18 *per cent* with effect from 1 July 2017 as per Punjab Act 18 of 2022 and Central Act 6 of 2022.

¹⁶ Corresponding CGST amendment vide Finance Act 6 of 2022 of the Central Government.

¹⁷ **CGST:** ₹ 6,49,495 **SGST:** ₹ 6,49,495, **IGST:** ₹ 4,89,366

¹⁸ Audit adopted conservative approach while working out interest and excluded the tax period of July 2017 to March 2018 as the month in which wrong input tax credit was availed in 2017-18, could not be identified from the scrutiny records.

¹⁹ ₹ 9,18,890

²⁰ ₹ 8,71,945

On being pointed out (November 2023), the Department replied (July 2024) that recovery notice has been issued to the taxpayer.

D *Availing of inadmissible input tax credit*

Section 17(5) of Punjab GST Act, 2017 provides that input tax credit shall not be available in respect of motor vehicles and other conveyances except when they are used for making taxable supplies such as (i) further supply of such vehicles or conveyances; or (ii) transportation of passengers; or (iii) imparting training on driving, flying, navigating such vehicles or conveyances; or (iv) for transportation of goods.

Audit examined (November 2023) a scrutiny case for the year 2017-18 conducted under Ropar Circle and noticed that ASMT-10 notice to the taxpayer was issued on 29 July 2022 seeking clarification on mismatch of input tax credit of ₹ 0.04 crore²¹ between GSTR-3B and GSTR-2A returns. In response, the taxpayer deposited IGST of ₹ 19,322 on 18 August 2022 through DRC-03 along with interest of ₹ 6,956. The taxpayer also clarified that one of his supplier had shown intra-State supply instead of inter-State supply in his GSTR-1 return, hence input tax credit of IGST claimed by the taxpayer in GSTR-3B appeared to be inflated. The proper officer found the response of the taxpayer to be satisfactory and closed the case.

Audit examined the profile of the supplier referred by the taxpayer in his reply and observed (November 2023) that supplier was engaged in supply of motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars other than those falling under HSN 8702, whereas the taxpayer was involved in the business of building construction material and services. Thus, input tax credit of ₹ 0.03 crore availed by taxpayer on the supply of ₹ 0.10 crore made by supplier was not admissible under Section 17(5) of the Act. Hence, taxpayer was liable to reverse input tax credit of ₹ 0.03 crore.

On being pointed out (November 2023), the Department replied (July 2024) that the taxpayer had sold the car in 2022 and paid output tax amounting to ₹ 0.02 crore. Now, the taxpayer has reversed balance input tax credit of ₹ 0.01 crore on 20 May 2024.

E *Non-initiation of recovery proceedings*

As per Section 78 of Punjab GST Act, 2017, any amount payable by a taxable person in pursuance of an order passed under the Act shall be paid by such person within a period of three months from the date of service of such order failing which recovery proceedings shall be initiated.

Audit examined (November 2023) a scrutiny case for the year 2020-21 conducted under Ropar Circle and noticed that ASMT-10 notice to a taxpayer

²¹ IGST: ₹ 2,84,689 CGST: ₹ 55,150 SGST: ₹ 55,150

was issued on 9 August 2021 for non-filing of GSTR-3B returns from January 2021 to March 2021 and not discharging tax liability of ₹ 0.03 crore, whereas the taxpayer had made outwards supplies as per e-Waybills. The taxpayer²² had filed returns only for the months of November and December 2020 with discharge of tax liability of ₹ 12,768. Due to non-response of the taxpayer, a show cause notice was issued on 24 September 2021. Subsequently, the case was adjudicated on 1 June 2023 with the order to deposit ₹ 0.05 crore²³.

Audit observed (November 2023) that neither taxpayer deposited the demand of ₹ 0.05 crore within the permissible period of three months, nor the proper officer initiated recovery proceedings even after lapse of three months from demand order.

On being pointed out (November 2023), the Department replied (July 2024) that recovery proceedings have been initiated against the taxpayer.

Considering the above findings noticed by the Audit in sample files as detailed above, the Department needs to commence the scrutiny of returns as envisaged in the SOP to protect the Government revenue.

Recommendation 1: The Department may reinforce mechanism for initiation and monitoring of scrutiny of returns cases to avoid revenue leakage.

2.7.1.2 Lack of action on non-filers

Section 46 of the Punjab GST Act, 2017 read with Rule 68 of Punjab GST Rules, 2017 stipulates issuance of a notice in form GSTR-3A requiring filing of return within fifteen days, if the taxpayer fails to file the return within the due date. In case the taxpayer fails to file the returns even after such notice, the proper officer may proceed to assess the tax liability of the said person to the best of his judgment under Section 62 of the Act, taking into account all the relevant material which is available or gathered and issue an assessment order in form ASMT-13. If the said return still remains unfurnished within the statutory period of 30 days from the issuance of order in ASMT-13, then the proper officer may initiate recovery proceedings under Section 79 of the Act. In case the defaulter furnishes a valid return within 30 days of the service of assessment order in form ASMT-13, the said assessment order shall be deemed to have been withdrawn in terms of the provision of Sub-Section (2) of Section 62 of the Act.

Further, the proper officer may initiate action under sub-Section (2)(c) of Section 29 of the Punjab GST Act for cancellation of registration in cases where the return has not been furnished for a period of six months.

²² Date of registration of the taxpayer was 18 November 2020 and date of cancellation was 31 January 2021.

²³ CGST: ₹ 1,77,638, SGST: ₹ 1,77,638, Penalty: ₹ 35,526 and Interest: ₹ 1,45,594

The information and records related to non-filers for the year 2020-21 were sought from the selected 10 Circles (August to November 2023). Only Fazilka Circle provided the list of non-filers but month-wise granular details were not made available to the Audit. Remaining nine Circles did not provide any information to the Audit. Therefore, Audit could not analyse the data properly and relied upon MIS reports available on GST Portal in respect of all 10 selected Circles.

Subsequently, the Audit downloaded the MIS reports of the selected 10 Circles available on GST Portal and analysed the MIS reports of non-filers of GSTR-3B returns by comparing data of April 2020 with the data of October 2019 and identified 387 taxpayers who had not filed GSTR-3B returns at least for the last six months. Further verification of these taxpayers' information from the GST portal²⁴ revealed (between September 2023 and January 2024) that registrations of 241 taxpayers had been cancelled, registrations of 104 taxpayers were under suspension and remaining 42 taxpayers were active. Audit analysis of cancelled, suspended and active taxpayers showed belated actions and inaction on the part of the Department.

In case of 241 taxpayers, whose registrations had been cancelled, it was seen that the Department had taken up to five years for cancellation of registrations with time range between 60 and 1,825 days beyond six months of non-filing of returns. Out of these, 27 taxpayers were such taxpayers who had never filed returns after obtaining GST registrations and their registrations were cancelled after 223 to 1,578 days beyond six months of non-filing of returns.

In case of 104 taxpayers, whose registrations were suspended, it was seen that the Department took up to five years for suspending registrations with time range between 155 and 1,808 days beyond six months of non-filing of returns.

42 non-filer taxpayers were active as on dates of audit analysis conducted between September 2023 and January 2024 despite the fact that all of 42 taxpayers continued to be non-filers up to the dates of audit analysis.

Circle wise details of cancelled, suspended and active taxpayers are shown in **Table 2.3**.

Table 2.3: Circle wise details of cancelled, suspended and active taxpayers

Circle	Cancelled Registrations		Suspended Registrations		Active Registrations
	No. of taxpayers	Gap after 6 months (in days)	No. of taxpayers	Gap after 6 months (in days)	
Amritsar-I	30	112 to 1,309	01	1,624	06
Amritsar-II	15	183 to 1,532	01	392	22
Fazilka	56	183 to 1,150	00	--	00
Gurdaspur	11	118 to 1,100	03	303 to 1,608	02
Hoshiarpur	75	60 to 1,314	02	1,661 to 1,753	03

²⁴ <https://www.gst.gov.in>

Circle	Cancelled Registrations		Suspended Registrations		Active Registrations
	No. of taxpayers	Gap after 6 months (in days)	No. of taxpayers	Gap after 6 months (in days)	
Jalandhar-III	03	1,384 to 1,749	07	546 to 1,808	00
Mansa	03	182 to 791	01	1,749	01
Moga	06	181 to 1,825	23	728 to 1,627	01
Pathankot	00	--	37	155 to 1,354	05
Ropar	42	182 to 1,659	29	1,019 to 1,781	02
Total	241		104		42

Non-cancellation of registrations of non-filers manifests high risk of revenue loss such as the defaulters may continue to carry on their business without discharging their tax liabilities.

On being pointed out (September 2023 to January 2024), the Department replied (July 2024) in respect of Ropar Circle attributing delay in cancellation of 42 taxpayers and suspension of 29 taxpayers to shortage of staff, heavy workload and technical problems. The Department further replied that at present cancellations and suspensions were being done within time limit. With regard to two active registrations of non-filers under Ropar Circle, it was replied that both taxpayers had migrated from VAT regime and were allotted provisional GSTIN²⁵. The portal does not allow the cancellation of the provisional GSTINs. Replies in respect of remaining nine Circles were not furnished (January 2025).

Audit opines that the Department needs to take appropriate action to cancel the pointed out non-filer active and suspended GSTINs because non-cancellation of these GSTINs poses risk of revenue loss.

Recommendation 2: The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on returns filing and action taken on non-filers.

2.7.1.3 Cancellation of registrations

Section 29 of the Punjab GST Act, 2017 read with Rule 20 of the Punjab GST Rules, 2017 allows for cancellation of registration by the taxpayer in certain situations like closure of business, turnover falling below threshold for registration, transfer of business/merger/amalgamation, change of PAN, non-commencement of business within the stipulated time period and death of the proprietor.

Section 29(2) of the Punjab GST Act, 2017 allows *suo-moto* cancellation of the registration of the taxpayer by the tax officer on the grounds of contravention of the Acts or Rules by the taxpayer, composition taxpayers not filing return for three consecutive tax periods, normal taxpayers not filing return for continuous period of six months, registered persons not commencing business

²⁵ Goods and Services Tax Identification Number

within six months from date of registration and registration obtained by means of fraud, willful misstatement or suppression of facts.

Section 45 of the Punjab GST Act, 2017 requires every registered person other than (a) input service distributor or a non-resident taxable person or (b) composition taxable person (Section 10) or (c) persons paying tax under Section 51 - Tax Deducted at Source (TDS) or persons paying tax under Section 52 - Tax Collected at Source (TCS), whose registration has been cancelled, to file a final return in GSTR-10, within three months of the effective date of cancellation or the date of order of cancellation, whichever is later. The purpose of the final return is to ensure that the taxpayer discharges the outstanding liability. In case of non-filing of GSTR-10, the same procedure as adopted for non-filing of any return must be followed by the tax officer.

Delays in cancellation of registrations

As per Rule 22(1) of Punjab GST Rules, 2017, where the proper officer has reasons to believe that the registration of a person is liable to be cancelled under Section 29, he shall issue a notice to such person requiring him to show cause, within a period of seven working days from the date of the service of such notice, as to why his registration shall not be cancelled. The reply to such show cause notice shall be furnished within a period of seven days. On receipt of a satisfactory reply from the taxpayer within seven days, the proceedings for cancellations shall be dropped. In case of non-response or unsatisfactory reply within prescribed period of seven days, an order of cancellation of registration shall be issued within a period of thirty days from the date of receipt of reply.

Further Rule 22(3) of the Punjab GST Rules, 2017 provides that where a person who has submitted an application for cancellation of his registration, the proper officer shall issue an order of cancellation of registration within a period of thirty days from the date of application.

Information called for (August to November 2023) by Audit in respect of cancellations of registrations during 2020-21 from ten selected Circles was provided by four Circles²⁶ only, out of which one Circle²⁷ provided nil information. Remaining six Circles²⁸ did not provide information. Audit checked the information of cancelled taxpayers from MIS reports in respect of these Circles on the GST portal and noticed that information furnished by Jalandhar-III Circle was found correct in the MIS report. However, information provided by three Circles²⁹ had major variations with respect to MIS reports data. The information related to the remaining six Circles, which did not furnish any information, was also captured from the MIS reports. Hence, Audit relied on the MIS report data for further analysis. From the data, it was noticed

²⁶ Fazilka, Jalandhar-III, Moga and Pathankot.

²⁷ Jalandhar-III

²⁸ Amritsar-I, Amritsar-II, Gurdaspur, Hoshiarpur, Mansa and Ropar

²⁹ Fazilka, Moga and Pathankot.

(between September 2023 and June 2024) that 4,047 registrations were cancelled on application and 3,448 registrations were cancelled *suo-moto* in nine Circles³⁰. Audit analysis of these cases revealed that 1,835 cancellations on application and 1,358 *suo-moto* cancellations of registrations were delayed by one to 1,035 days. Circle-wise delays in cancellation of registrations are shown in **Table 2.4**.

Table 2.4: Delay in cancellation of registrations

Circle	Cancellations		Belated cancellations		
	On Application	Suo-Moto	On Application	Suo-Moto	Delay in days
Amritsar-I	585	659	379	214	1 to 941
Amritsar-II	508	539	253	241	1 to 941
Fazilka	635	408	203	65	2 to 1,035
Gurdaspur	357	383	133	81	1 to 855
Hoshiarpur	442	516	183	370	1 to 828
Mansa	413	200	147	56	1 to 321
Moga	405	285	211	180	1 to 919
Pathankot	255	266	131	86	1 to 848
Ropar	447	192	195	65	1 to 932
Total	4,047	3,448	1,835	1,358	1 to 1,035
	7,495		3,193		

Source: Audit analysis based on MIS Reports

On being pointed out (between September 2023 and June 2024), no reply was furnished by any Circle. In the absence of replies from the Circles, the Audit was unable to scrutinise the reasons for the delay and could not comment on efficacy of action taken by the Department in cancellation of registrations.

Recommendation 3: The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on timely cancellation of GST registrations on application and *suo-moto*.

2.7.1.4 Non-filing of GSTR-10 returns after cancellations

As per Section 45 of Punjab GST Act, 2017, it is binding upon the cancelled taxpayer to file a final return in form GSTR-10 within a period of three months from the date of cancellation or date of order of cancellation, whichever is later and discharge his due tax liabilities.

In case cancelled taxpayer fails to furnish final return GSTR-10 within prescribed period, a notice has to be issued by proper officer under Section 46 of the Act asking cancelled taxpayer to furnish his GSTR-10 return within 15 days. If cancelled taxpayer fails to file his GSTR-10 return, even after service of a notice, then proper officer is empowered under Section 62 of the

³⁰ As per MIS report data and information provided by Jalandhar-III Circle, no cancellations were made in this Circle during 2020-21.

Act to proceed to assess the tax liability of the said person to the best of his judgement taking into account all the relevant material which is available or which he has gathered and issue an assessment order within a period of five years from the due date of furnishing annual return for the financial year to which the tax not paid relates.

In case the cancelled taxpayer does not discharge his tax liabilities within three months of passing of an assessment order under Section 62 of the Act, then proper officer shall initiate recovery proceedings under Section 78 of the Act and recover pending tax dues by one or more of the modes prescribed under Section 79 of the Act.

Further, Section 83 of the Act empowers the Commissioner to provisionally attach any property including bank account, belonging to the taxable person during the pendency of proceedings under Section 62 of the Act, if he is of the opinion that it is necessary to protect the interest of the Government revenue.

To identify the taxpayers' whose registrations were cancelled in 2020-21 but GSTR-10 returns were not filed, Audit compared the MIS report data of registrations cancelled in 2020-21 with MIS report data of GSTR-10 defaulters as on 30 January 2024 in respect of ten selected Circles. Audit analysis revealed (September 2023 to June 2024) that 3,150 cancelled taxpayers (42.03 per cent) under nine Circles³¹ had not filed GSTR-10 returns up to 30 January 2024. Out of 3,150 taxpayers, 1,765 registrations were cancelled on application and 1,385 registrations were cancelled *suo-moto* by the Department. The Circle wise details of non-filing of GSTR-10 returns are shown in **Table 2.5**.

Table 2.5: Non-filing of GSTR-10

Circle	Registration cancellations			Non-filers of GSTR-10			Per cent non-filers
	On Application	Suo-Moto	Total	On Application	Suo-Moto	Total	
Amritsar-I	585	659	1,244	298	221	519	41.72
Amritsar-II	508	539	1,047	230	150	380	36.29
Fazilka	635	408	1,043	325	200	525	50.34
Gurdaspur	357	383	740	148	164	312	42.16
Hoshiarpur	442	516	958	173	186	359	37.47
Mansa	413	200	613	155	145	300	48.94
Moga	405	285	690	140	83	223	32.32
Pathankot	255	266	521	85	123	208	39.92
Ropar	447	192	639	211	113	324	50.70
Total	4,047	3,448	7,495	1,765	1,385	3,150	42.03

Source: Audit analysis based on MIS Reports

The above table shows that 42.03 per cent of cancelled taxpayers had not filed GSTR-10 returns. Ropar Circle had the highest percentage of defaulters with

³¹ As per MIS report data and information provided by Jalandhar-III Circle, no cancellations were made in this Circle during 2020-21.

50.70 *per cent* while Moga Circle had the least percentage of defaulters with 32.32 *per cent*. As per information provided to Audit (September 2023) no action was initiated by Fazilka Circle against the cancelled taxpayer for failing to file GSTR-10 returns. Remaining eight Circles did not provide information regarding action initiated against the GSTR-10 defaulters, in the absence of which no comments could be offered on the action taken by these Circles against cancelled taxpayers for not filing GSTR-10 returns. Further, in absence of data, Audit could not ascertain number of cases where assessment under Section 62 was carried out.

As seen in the Audit, out of 3,150 taxpayers, 1,765 registrations were cancelled on application, which represents a significant *per cent* (56.03 *per cent*) of non-filers of GSTR-10 returns. Concerted efforts are required to be made by the Department to ensure that final tax liabilities are discharged by the cancelled taxpayers by filing GSTR-10 returns.

On being pointed out (September 2023 to June 2024), Ropar Circle replied (July 2024) that proceedings for filing of GSTR-10 have been initiated. No reply was furnished by the remaining eight Circles.

Recommendation 4: The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on filing of GSTR-10 post cancellation of registrations.

2.7.1.5 Audit of taxpayers

As per Section 65 of the Punjab GST Act, 2017, the Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. Section 2(13) of the Act, defines “Audit” as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the rules made thereunder.

Punjab Taxation Department adopted the criteria for selection of audit pertaining to the financial year 2017-18 based on risk parameters as per CBIC and GSTN ratings. For the financial year 2018-19, parameters were as per BIFA³² module developed by GSTN. The Department strengthened internal audit in February 2020 and issued GST Audit Manual in January 2021.

Audit sought (February 2024) information related to number of units planned, number of units covered, number of units audited outside planned units, reason of deviation and number of nil reports but the Department provided information related to only number of units planned for audit and number of units actually

³² Business Intelligence and Fraud Analytics

audited. In the absence of information, the Audit could not ascertain the efficacy of the internal audit conducted by the Department.

Further, as per information provided to Audit (May 2024), the details of audit undertaken by the Department for the years 2017-18 to 2020-21 are given in **Table 2.6.**

Table 2.6: Details of audit

Financial Year	Total number of taxpayers (Regular and Composition)	No. of taxpayer selected for audit (in per cent)	Actual number of audits completed (as of March 2024)	Demand created	Recovered
				₹ in crore	
2017-18	3,30,260	449 (0.14%)	449	286.30	19.33
2018-19	3,85,884	449 (0.12%)	449	792.16	27.88
2019-20	4,29,598	115 (0.03%)	22	97.08	0.59
2020-21	4,70,541	220 (0.05%)	0	0	0
Total		1,233	920	1,175.54	47.80

Source: Departmental Data

Above data shows that only 0.03 per cent to 0.14 per cent cases for the years 2017-18 to 2020-21 were selected for audit. Further, 313 cases out of selected 1,233 cases were not audited and tax demand of ₹ 1,127.74 crore out of created demand of ₹ 1,175.54 crore was pending for recoveries as of March 2024.

Audit of taxpayers is an important tool available with the Department to verify the correctness of records maintained by the taxpayers. The Department may consider increasing its efforts in this area keeping in view the additional tax demand created as a result of audit as tabulated above.

Recommendation 5: Year-wise targets under Section 65 of Punjab GST Act, 2017 may be increased in view of additional tax demand created as a result of internal audit.

2.7.1.6 Lack of action on DGARM Reports

The CBIC formed Directorate General of Analytics and Risk Management (DGARM) in July 2017 with the aim of studying, interpreting and analysing the GST data and sharing the results with various stakeholders under the Board. Similarly, Punjab Taxation Department established a specialised wing 'Tax Intelligence Unit' (TIU) in January 2023 to detect irregularities and discrepancies in the returns filed by the taxpayers. Additional information available on various platforms like Boweb portal³³, e-Way bill portal, BIFA³⁴, GST Prime,³⁵ etc. is also consulted by TIU. Further, ET TSA also provides

³³ Back-Office Web GST Portal

³⁴ Business Intelligence and Fraud Analytics

³⁵ GST Prime is a product by National Informatics Centre (NIC) to help the tax administrators of State/Centre to analyse and monitor the tax collection and compliance in their jurisdiction.

assistance to TIU. The reports prepared by TIU are shared with concerned wings of the Department for necessary action and compliance.

Information called for by Audit (between August and December 2023) regarding action taken by selected ten Circles on DGARM and TIU reports during 2020-21 was not provided except in respect of Fazilka Circle. From the information provided to Audit in respect of Fazilka Circle, it was noticed (September 2023) that four cases under DGARM reports were allotted to the Circle during 2020-21, out of which, the Department did not find any omission in three cases and closed the proceedings and one case involving amount ₹ 0.79 crore was pending for verification (September 2023).

In the absence of information in respect of nine Circles, no assurance could be drawn on the action taken by these Circles on the reports of DGARM and TIU. However, Audit opines that the reports shared by DGARM and TIU put red flags on the risky transactions of the taxpayers that involve revenue implications, therefore, the Department needs to take timely action on such reports.

On being pointed out (September 2023), the Fazilka Circle replied (July 2024) that verifications have been completed and recovery has been made in the remaining case.

Recommendation 6: The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on DGARM reports which provides inputs for risky transactions.

2.7.2 Oversight on tax payments

2.7.2.1 Inconsistencies in GST returns - Centralised audit

Audit analysed GST returns data pertaining to 2018-2021 as made available by GSTN. Rule-based deviations and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 17 audit dimensions, which can be broadly categorised into two domains viz. input tax credit and tax payments.

Out of the 13 prescribed GST returns³⁶, the following basic returns that apply to normal taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/data.

- GSTR-1: Monthly return to be filed by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR-2A: System-generated statement of inward supplies for recipient. It

³⁶ 1. GSTR-1 2. GSTR-3B, 3. GSTR-4 (taxpayers under the Composition scheme) 4. GSTR-5 (non-resident taxable person) 5. GSTR-5A (Non-resident OIDAR service providers) 6. GSTR-6 (Input service distributor) 7. GSTR-7 (taxpayers deducting TDS) 8. GSTR-8 (E-commerce operator) 9. GSTR-9 (Annual Return) 10. GSTR-10 (Final return) 11. GSTR-11 (person having UIN and claiming a refund) 12. CMP-08 13. ITC-04 (Statement to be filed by a principal/job-worker about details of goods sent to/received from a job-worker)

contains the details of all B2B³⁷ transactions declared by suppliers in their form GSTR-1/GSTR-5, ISD details from GSTR-6, details from GSTR-7 and GSTR-8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE³⁸ Portal of Indian Customs.

- GSTR-3B: Monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credits and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.
- GSTR-5: Monthly return to be filed by non-resident taxpayers containing outward supplies of goods and services.
- GSTR-6: Monthly return for Input Service Distributors providing the details of their distributed input tax credit and inward supplies.
- GSTR-7: Monthly return to be filed by persons who deduct tax at the time of making/crediting payment to suppliers towards the inward supplies received.
- GSTR-8: Monthly return to be filed by e-commerce operators who are required to deduct TCS (Tax collected at source) under GST, introduced in October 2018.
- GSTR-9: Annual return to be filed by all registered persons other than an input service distributor (ISD), Tax Deductor at Source/Tax Collector at Source, casual taxable person, and non-resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover and audit details for the same.
- GSTR-9C: Annual audit form for all taxpayers having a turnover above ₹ 5 crore in a particular financial year. It is basically a reconciliation statement between the annual return filed in GSTR-9 and the taxpayer's audited annual financial statement.

The Pan-Punjab data analysis pertaining to State jurisdiction on the 17 identified audit dimensions and extent of deviations/inconsistencies observed are summarised in **Table 2.7 (a) and (b)**.

³⁷ Business to Business

³⁸ Indian Customs Electronic Data Interchange Gateway

Table 2.7 (a): Summary of pan Punjab data analysis

Sr. No.	Audit dimension	Algorithm used	Taxpayers	Number of instances	Amount of deviation/ mismatch (₹ in crore)
Mismatch in availing of ITC					
1.	Input tax credit mismatch (GSTR-3B and GSTR-2A)	<p>A. The input tax credit availed in Table 4A (5) of GSTR 3B, Table 4D of GSTR-3B (or Table 8F of GSTR-9) and Table 8C of GSTR-9 should not exceed the input tax credit available in Table 3, Table 4, Table 5 and Table 6 of GSTR 2A for the period 2018-19 and April to September 2019.</p> <p>B. The input tax credit availed in Table 4A (5) of GSTR 3B, Table 4D of GSTR 3B (or Table 8F of GSTR-9) and Table 8C of GSTR-9 should not exceed 120 <i>per cent</i> of the input tax credit available in Table 3, Table 4, Table 5 and Table 6 of GSTR-2A for the period October to December 2019.</p> <p>C. The input tax credit availed in Table 4A (5) of GSTR-3B, Table 4D of GSTR-3B (or Table 8F of GSTR-9) and Table 8C of GSTR-9 should not exceed 110 <i>per cent</i> of the input tax credit available in Table 3, Table 4, Table 5 and Table 6 of GSTR-2A for the period January to March 2020.</p>	45	65	490.93
2.	Input tax credit availed without supplier remitting tax	In cases where input tax credit available in Table 8A of GSTR-9 was less than the input tax credit available in GSTR-2A (including subsequent year's adjustments), the input tax credit availed on transactions where the supplier had not filed GSTR-3B or issued invoices after effective date of cancellation were accounted for separately. Further, if Table 8D of GSTR-9 was negative, the entire amount should have been reversed.	20	47	187.46
3.	Input tax credit availed on GSTR-3B filed after limitation period	Input tax credit availed through GSTR-3B pertaining to the periods 2018-19, 2019-20 and 2020-21 filed after October 2019, October 2020 and October 2021, respectively.	35	50	37.31
4.	Excess ISD credit	If GSTR-9 was available, Table 6G minus Table 7B of GSTR-9 was expected to equal the sum of Table 5A, Table 8A and Table 9A of GSTR-6, adjusted for entries in Table 8A or Table 9A of GSTR-6 from respective distributors. If Table 7B of GSTR-9 was null or zero, Table 7H of GSTR-9 could be used.	14	22	4.58

Sr. No.	Audit dimension	Algorithm used	Taxpayers	Number of instances	Amount of deviation/ mismatch (₹ in crore)
		If GSTR-9 was not available, Table 4(A)(4) minus Table 4(B)(2) of GSTR-3B was expected to equal the sum of Table 5A, Table 8A and Table 9A of GSTR-6, or Table 4A(4) minus Table 4B(2) of GSTR-3B should not have exceeded Table 7 minus Table 8 of GSTR-2A.			
Mismatch in annual return and financial statements (FS)					
5.	Short payment of tax (Table 9R of GSTR-9C)	Any negative entry (excluding interest, penalty, late fee) in Table 9R of GSTR-9C could be a case of non-payment or short-payment of tax.	10	14	110.02
6.	Unreconciled input tax credit with financial statements (Table 12F of GSTR-9C)	Only positive entries in Table 12F of GSTR-9C were considered. For top deviations, if there were multiple GSTINs under the same PAN, the respective figures in Table 12 of GSTR-9C for all GSTINs along with a consolidated deviation (considering all GSTINs) were to be provided. Since filling Table 12B and 12C (input tax credit adjustments between years) was optional until the period 2020-21, only those taxpayers who had disclosed these details were included.	10	18	36.68
7.	Ineligible input tax credit (Table 14T of GSTR-9C)	Only positive entries in Table 14T of GSTR-9C were considered. Since taxpayers had the option not to fill this table, only the unreconciled cases where the taxpayer had disclosed the details, were included.	10	16	45.03
Shortfall in tax paid or interest and other deviations					
8.	Short payment of tax on reverse charge	Tax liability under reverse charge mechanism in Table 3.1(d) of GSTR-3B should not be less than the input tax credit availed in Table 6C, Table 6D and Table 6F of GSTR-9. If GSTR-9 is not available, the tax liability under reverse charge mechanism in Table 3.1(d) of GSTR-3B should not be less than the total of Table 4(A)(2) and Table 4(A)(3) of GSTR-3B.	25	36	135.84
9.	Undischarged tax liability (GSTR-1 and GSTR-9)	If GSTR-9 is available, the sum of [Table 4, Table 5, Table 6, Table 7 of GSTR-1, the data of Table 9 of GSTR-1 where amendments (amended value minus original value of the same invoice), debit notes of Table 9, credit notes of Table 9, Table 11A and Table 11B of GSTR-1 (net of advances and adjustments of Table 11)] and [tax payable in Table 4N minus Table 4G plus Table 10 minus Table 11 of GSTR-9] (whichever is greater) should not exceed	45	80	339.08

Sr. No.	Audit dimension	Algorithm used	Taxpayers	Number of instances	Amount of deviation/ mismatch (₹ in crore)
		the tax paid in [Table 9 (both ITC and cash) plus Table 14 minus Table 4G of GSTR-9]. Where GSTR-9 is not available, tax payable in Table 4 (excluding Table 4B), Table 5, Table 6, Table 7 of GSTR-1, the data of Table 9 of GSTR-1 where amendments (amended value minus original value of the same invoice), debit notes of Table 9, credit notes of Table 9, Table 11A and Table 11B of GSTR-1 (net of advances and adjustments of Table 11) should not exceed [Table 6.1 (without interest and late fee) minus Table 3.1(d) of GSTR-3B].			
10.	E-commerce benefactors under composition levy	If GSTINs from Table 3 of GSTR 8 returns also filed CMP-08 quarterly returns as composition taxpayers, then it was irregular.	5	5	0
11.	Under composition levy even after crossing the specified turnover	The composition taxpayers whose turnover on an all-India basis (Central and State jurisdiction) under all GSTINs of the same PAN had crossed the turnover limit of ₹ 1 crore in 2018-19 and ₹ 1.5 crore in 2019-20.	2	2	0
12.	GSTR-3B not filed but GSTR-1/2A available	Taxpayers who had filed GSTR-1 but hadn't filed the corresponding GSTR-3B for the years 2018-19, 2019-20, and 2020-21 by October 2019, October 2020 or October 2021.	30	37	43.16
13.	Non-payment of interest	Interest at the rate of 18 per cent on the cash component of tax payment for delayed GSTR-3B.	45	121	15.63
Total			296	513	1,445.72

Table 2.7 (b): Summary of pan Punjab data analysis (Turnover mismatch)

Sr. No.	Audit dimension	Algorithm used	Taxpayers	Number of instances	Amount of deviation/ mismatch (₹ in crore)
14.	Suppression of taxable value (e-Waybill)	The sum of Table 3.1(a) and Table 3.1(b) of GSTR-3B should be less than the tax liability declared in e-Waybills.	35	83	6,291.81
15.	Short payment of tax (TDS/TCS)	Table 3.1(a) of GSTR-3B was compared with Column 4 of Table 9 of GSTR-2A.	15	19	83.40
16.	Suppression of taxable	Table 5B of GSTR-9C for 2018-19 was compared with Table 5H of GSTR-9C for	10	20	2,336.39

Sr. No.	Audit dimension	Algorithm used	Taxpayers	Number of instances	Amount of deviation/mismatch (₹ in crore)
	value (unbilled revenue)	2017-18, and similarly, Table 5B of GSTR-9C for 2019-20 was compared with Table 5H of GSTR-9C for 2018-19, and Table 5B of GSTR-9C for 2020-21 was compared with Table 5H of GSTR-9C for 2019-20.			
17.	Unreconciled taxable turnover (Table 7G of GSTR-9C)	Any negative entry in Table 7G of GSTR-9C could be a case of clearances of taxable supplies in the guise of exempted, nil rates, non-GST and no supply turnover.	10	19	21,996.46
Total			70	141	30,708.06

A Results of Centralised Audit

Out of inconsistencies in 654 instances (**Appendix-2.1-B**), the Department's responses were received in 642 instances. Out of responses received, 326 instances (50.78 per cent) involving ₹ 1,646.00 crore translated into compliance deviations, where the Department accepted inconsistencies in 36.60 per cent deviations with recoveries of ₹ 2.14 crore in 33 instances (**Appendix-2.2-IV**), issued show cause notices amounting to ₹ 1,472.75 crore (Demand raised³⁹: ₹ 1,353.15 crore, Demand confirmed⁴⁰: ₹ 119.60 crore) in 184 instances (**Appendix-2.2-V**) and issued ASMT-10 in 18 instances (**Appendix-2.2-VI**) involving ₹ 49.78 crore⁴¹ to seek the taxpayers' reply. In these instances, higher rates of deviations were noticed in risk areas such as input tax credit mismatch, input tax credit availed after limitation period, undischarged tax liability, short/non-payment of interest on delayed payment of tax and non-filing of GSTR-3B. Additionally, 85 instances (**Appendix-2.2-VII**) involving ₹ 115.83 crore⁴² were under correspondence with the taxpayers. In six instances (**Appendix-2.2-VIII**) amounting to ₹ 5.50 crore, the Department's replies were not acceptable to the Audit and further clarification was sought. 24 instances (**Appendix-2.2-IX**) involving ₹ 61.54 crore⁴³ were under examination by the Department. In eight instances (**Appendix-2.2-X**) amounting to ₹ 47.66 crore (including mismatch of turnover), the Department did not accept the deviations pointed out by Audit but did not provide any documentary evidence in support of its reply. In 284 instances (44.24 per cent), where the Department's reply was acceptable to Audit, data entry errors by taxpayers comprised 22 instances

³⁹ DRC-01

⁴⁰ DRC-07

⁴¹ This amount represents a mismatch of turnover of ₹ 4.85 crore and mismatch of tax liability/input tax credit of ₹ 44.93 crore.

⁴² This amount represents a mismatch of turnover of ₹ 49.48 crore and mismatch of tax liability/input tax credit of ₹ 66.35 crore.

⁴³ This represents a mismatch of turnover of ₹ 3.38 crore and mismatch of tax liability/input tax credit of ₹ 58.16 crore.

(**Appendix-2.2-I**), the Department had proactively taken action in 44 instances (**Appendix-2.2-II**), and in 218 instances (**Appendix-2.2-III**), the Department had valid explanations. Further in 12 cases (**Appendix-2.2-XI**) involving ₹ 51.44 crore, the reply of the Department was not received.

Out of 17 audit dimensions of Centralised Audit, the Department made recoveries, issued show cause notices, ASMT-10 and took issues under correspondence with the taxpayers in 16 audit dimensions. High value case for each such audit dimension is discussed below.

1. Input tax credit mismatch

GSTR-2A is a purchase related dynamic tax return that is automatically generated for each business by the GST portal, whereas GSTR-3B is a monthly return in which summary of outward supplies along with input tax credit declared and payment of tax are self-declared by the taxpayer.

In order to analyse the veracity of input tax credit availed, relevant data was extracted from GSTR-3B and GSTR-2A for the period 2018-19 to 2020-21, and the input tax credit paid as per suppliers' details was matched with the input tax credit availed by the taxpayer. The methodology adopted was to compare the input tax credit available as per GSTR-2A with all its amendments with the input tax credit availed in GSTR-3B in Table 4A(5) including 4(D) blocked credits and credit availed in Table 8C of GSTR-9 in subsequent years.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) mismatch of ₹ 25.14 crore in 2020-21 between input tax credit available as per GSTR-2A and input tax credit availed by the taxpayer in GSTR-3B. The input tax credit available as per GSTR-2A was ₹ 27.96 crore, whereas input tax credit availed in GSTR-3B was ₹ 53.10 crore.

In response, the Department replied (July 2024) that matter regarding ₹ 25.14 crore was under correspondence with the taxpayer.

2. Input tax credit availed without supplier remitting tax

GSTR-2A of the recipient taxpayer is generated on the basis of disclosures made by the supplier taxpayers in their GSTR-1 for outward supplies made. The supplier taxpayers are required to discharge their tax liabilities by filing GSTR-3B returns. The data captured as on 31 October of the following financial year in the Table 8A of the GSTR-9 was compared with Table 3 to 6 of GSTR-2A⁴⁴. The deviations may likely indicate cases where input tax credit would have been passed on by the taxpayer without actual remitting the tax.

In case of a taxpayer under Ludhiana-III Circle, Audit communicated to the Department (August 2023) mismatch of ₹ 10.15 crore for 2020-21 between Table 8A of the GSTR-9 and Table 3 to 6 of GSTR-2A of the taxpayer.

⁴⁴ Tables 3 and 5 of the old GSTR-2A format.

In response, the Department replied (July 2024) that ASMT-10 has been issued to the taxpayer.

3. Input tax credit availed after limitation period

Section 16(4) read with Section 39 of the Punjab GST Act, 2017 provides for availing of input tax credit till 20 October of the following year by furnishing GSTR-3B return of a year to which input tax credit pertains. Accordingly, if any GSTR-3B is furnished after such time, input tax credit availed by the taxpayer becomes inadmissible.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (June 2023) that taxpayer had filed GSTR-3B of March 2019 after 20 October 2019 and availed input tax credit of ₹ 4.78 crore.

In response the Department replied (July 2024) that show cause notice for ₹ 8.48 crore (including interest) has been issued to the taxpayer on 8 August 2023.

4. Excess Input Service Distributor credit

In order to analyse whether input tax credit availed by the taxpayer is not in excess of that transferred by the input service distributor, the input tax credit availed in the returns of the taxpayer was compared with the input tax credit transferred by the input service distributors in their GSTR-6 returns.

The methodology adopted was to compare Table 6G of GSTR-9 of the taxpayer with the sum of Table 5A, Table 8A, and Table 9A of GSTR-6 furnished by respective input service distributors after considering adjustments. In case where Table 7B was null in GSTR-9 of the taxpayer, Table 7H values were considered. In cases where GSTR-9 was not available, the Table 4(A)(4) of GSTR-3B of the taxpayer was compared with the sum of Table 5A, Table 8A, and Table 9A of GSTR 6 furnished by the respective input service distributors.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that taxpayer had availed input tax credit of ₹ 0.91 crore under ISD category during 2018-19, whereas respective input service distributors have transferred ₹ 0.38 crore resulting in difference of ₹ 0.53 crore.

In response, the Department replied (July 2024) that matter regarding mismatch of ITC of ₹ 0.53 crore was under correspondence with the taxpayer.

5. Short payment of tax

In order to review the extent of identified mismatch in tax paid reported in the annual return vis-à-vis the financial statements, the relevant data-points pertaining to Table 9 of the GSTR-9C reconciliation statement of 2018-19 to 2020-21 submitted by the taxpayer under Rule 80(3) of Punjab GST Rules, 2017 was analysed at data level. In order to rule out the possibility of incorrect

disclosure of the tax paid amount in GSTR-9C, the amount was also compared with actual tax payment details in GSTR-9.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that taxpayer had unreconciled payment of tax of ₹ 9.00 crore in Table 9R of GSTR-9C of 2020-21.

In response, the Department replied (July 2024) that process to issue show cause notice has been initiated.

6. Unreconciled input tax credit with financial statements

Table 12 of GSTR-9C reconciles the input tax credit declared in the annual return GSTR-9 with the input tax credit availed as per audited annual financial statement or books of accounts.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of Punjab GST Rules, 2017 in form GSTR-9C for the year 2018-19 to 2020-21 was analysed at data level to review the extent of identified mismatch in input tax credit availed between the annual return and financial statement.

In case of a taxpayer under Ludhiana-I Circle, Audit communicated to the Department (August 2023) that there was unreconciled input tax credit of ₹ 4.17 crore in 2020-21 under Table 12F of GSTR-9C of the taxpayer.

In response, the Department replied (July 2024) that ASMT-10 has been issued to the taxpayer.

7. Unreconciled input tax credit with financial statements

Table 14 of GSTR-9C reconciles the input tax credit declared in the annual return GSTR-9 with the input tax credit availed as per audited annual financial statement or books of accounts.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of Punjab GST Rules, 2017 in form GSTR-9C for the year 2018-19 to 2020-21 was analysed at data level to review the extent of identified mismatch in input tax credit availed between the annual return and financial statement.

In case of a taxpayer under Ludhiana-II Circle, Audit communicated to the Department (August 2023) that there was unreconciled input tax credit of ₹ 4.89 crore in 2020-21 under Table 14T of GSTR-9C of the taxpayer.

In response, the Department replied (July 2024) that issue of ₹ 4.89 crore was under correspondence with the taxpayer.

8. Short payment of tax under reverse charge

Under Reverse Charge Mechanism (RCM) the liability to pay tax is fixed on the recipient of goods or services instead of the supplier or provider in respect of

certain categories of goods or services or both under Section 9(3) or Section 9(4) of the Punjab GST Act, 2017.

GSTR-9 is an annual return to be filed once for each financial year, by the registered taxpayers who were regular taxpayers, including SEZ units and SEZ developers. The taxpayers are required to furnish details of purchases, sales, input tax credit or refund claimed or demand created etc.

In order to analyse the veracity of tax paid under Reverse Charge Mechanism, the datasets in GSTR-3B and annual return GSTR-9 pertaining to RCM was compared to check whether the tax has been discharged fully on the activities or transactions under RCM. In cases where GSTR-9 was filed, the RCM payments under Table 4G were compared with input tax credit availed in Table 6C, 6D and 6F. In cases where GSTR-9 was not available, RCM payments in GSTR-3B under Table 3.1(d) were compared with GSTR-3B 4(A)(2) and 4A(3).

In case of a taxpayer under Ludhiana-II Circle, Audit communicated to the Department (August 2023) that the taxpayer had availed input tax credit of ₹ 1.64 crore in 2018-19 under Table 4(A)(2) and 4A(3) of GSTR-3B but tax payable under reverse charge was ₹ 3,648 in Table 3.1(d) of GSTR-3(B). Thus, the difference in these figures was indicative of short payment of tax of ₹ 1.64 crore under reverse charge.

In response, the Department replied (July 2024) that show cause notice will be issued to the taxpayer.

9. Undischarged tax liability

GSTR-1 depicts the monthly details of outward supplies of goods or services. These details are also assessed by the taxpayer and mentioned in annual return GSTR-9 in the relevant columns. Further, taxable value and tax paid thereof are also shown in GSTR-3B.

In order to analyse the undischarged tax liability in 2018-19 to 2020-21, the tax payable in the GSTR-1 and GSTR-9 was compared with the tax paid declared in GSTR-9. Where GSTR-9 was not available, a comparison of tax payable between GSTR-1 and GSTR-3B was resorted to. The amendments and advance adjustments declared in GSTR-1 and GSTR-9 were also considered for this purpose. The higher tax liability from the GSTR-1 and GSTR-9 was compared with the tax paid declared in Tables 9 and 14 of GSTR-9 to identify the short payment of tax. In the case of GSTR-3B, Table 6.1 minus Table 3.1(d) was taken into account.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that tax payable by the taxpayer for 2019-20 was ₹ 12.21 crore as per GSTR-1 whereas tax payable and tax paid in GSTR-9 and GSTR-3B was nil.

In response, the Department replied (July 2024) that show cause notice for ₹ 14.03 crore imposing penalty has been issued to the taxpayer.

10. E-commerce beneficiary under composition levy

At the data level, the Audit attempted to identify those composition taxpayers who have availed the e-commerce facility for making their supplies. The datasets pertaining to GSTR-8 filed by the e-commerce operators and CMP-08 filed by the composition taxpayers were compared to check whether the recipient GSTINs mentioned in GSTR-8 have also filed CMP-08. Moreover, in cases where turnover declared by e-commerce operators in their GSTR-8 returns was more than the turnover declared by the corresponding composition taxpayers in their CMP-08, there was a likelihood of short payment of tax by the composition taxpayers.

In case of a composition taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that the taxpayer availed e-commerce facility for making their supplies during year 2019-20.

In response, the Department replied (July 2024) that show cause notice has been issued to the taxpayer.

11. GSTR-3B not filed but GSTR-1 available

At the data level, Audit attempted to identify those taxpayers who had not filed GSTR-3B but had filed GSTR-1. GSTR-3B return is the instrument through which the liability can be offset, and input tax credit is credited in the ledger. The availability of GSTR-1 and non-filing of GSTR-3B indicates that the taxpayers carried on the business during the period but have not discharged their tax liability. It may also include cases of irregular passing-on of input tax credit.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that the taxpayer had filed GSTR-1 returns but did not file GSTR-3B for August 2019 involving tax implication of ₹ 12.21 crore.

In response, the Department replied (July 2024) that show cause notice for ₹ 12.21 crore has been issued to the taxpayer.

12. Non-payment of interest

Section 50 of the Punjab GST Act, 2017 stipulates that every person liable to pay tax in accordance with the provisions of the Act or the rules made thereunder but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

The extent of short or non-payment of interest on account of delayed remittance of tax during 2018-19 to 2020-21 was identified using the tax paid details in GSTR-3B and the date of filing of returns including extensions provided. Only

the net tax liability (cash component) was considered to work out the interest payable.

In case of a taxpayer under Ludhiana-II Circle, Audit communicated to the Department (August 2023) that the taxpayer had belatedly filed GSTR-3B returns in 2018-19 with delay ranging between 12 and 136 days but interest of ₹ 0.89 crore for belated payment of tax was not paid.

In response, the Department replied (July 2024) that matter regarding interest of ₹ 0.89 crore was under correspondence with the taxpayer.

13. Suppression of taxable value (e-Waybill)

To analyse the extent of short-payment of tax, relevant data related to tax liability declared in GSTR 3B for the years 2018-19 to 2020-21 were compared with disclosures made in e-Waybill. For the algorithm, the cases where taxable value as per Table 3.1 (a) and (b) of GSTR 3B was less than the taxable value declared in the e-Waybills, were chosen.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that the taxpayer had short declared taxable value of ₹ 11.14 crore in 2019-20.

In response, the Department replied (July 2024) that show cause notice had been issued to the taxpayer.

14. Short payment of tax (TDS/TCS)

The details of tax deducted at source (TDS) and tax collected at source (TCS) are declared in GSTR-7 and GSTR-8 respectively and communicated to the registered person in Table 9 of GSTR-2A. Such cases were identified where the taxable value declared on account of outward taxable supplies⁴⁵ in GSTR-3B was less than the net amount liable for TCS and TDS credit as per Table 9 of GSTR-2A.

In case of a taxpayer under Bathinda Circle, Audit communicated to the Department (August 2023) that the taxpayer had short declared taxable value of ₹ 12.15 crore in 2020-21.

In response, the Department replied (July 2024) that matter regarding short declaration of taxable value of ₹ 12.15 crore was under correspondence with the taxpayer.

15. Suppression of taxable value (unbilled revenue)

Table 5B figures of GSTR 9C for the years 2018-19 to 2020-21, which captures the unbilled revenue at the beginning of the financial year, was compared with Table 5H of the previous GSTR 9C returns, which captures the unbilled revenue

⁴⁵ Other than zero rated, nil rated and exempted supplies.

at the end of the year to review the extent of identified mismatch in turnover declared in the annual return with the financial statements.

In case of a taxpayer under Ropar Circle, Audit communicated to the Department (August 2023) that the taxpayer had nil unbilled revenue at the beginning of 2018-19 while unbilled revenue at the end of 2017-18 was ₹ 283.58 crore resulting in mismatch of taxable value of ₹ 283.58 crore.

In response, the Department replied (July 2024) that show cause notice had been issued to the taxpayer.

16. Unreconciled taxable turnover

In order to review the extent of identified mismatch in taxable turnover reported in the Annual Return vis-à-vis the Financial Statements, the relevant datapoints pertaining to Table 5 and 7 of the GSTR 9C reconciliation statement submitted by the taxpayer as required under Rule 80(3) of the Central GST/Punjab GST Rules for the years 2018-19 to 2020-21 were analysed at data level.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that the taxpayer had unreconciled taxable turnover of ₹ 374.64 crore as per Table 7G of GSTR 9C for the year 2020-21.

In response, the Department replied (July 2024) that show cause notice for ₹ 374.64 crore had been issued to the taxpayer.

B Analysis of causative factors

Considering the Department's response to 642 instances/inconsistencies, the factors that caused the data deviations/inconsistencies are discussed below.

Out of the 17 audit dimensions, the Department accepted the audit observations or initiated examination in 320 instances⁴⁶ with tax effect/turnover mismatch of ₹ 1,640.50 crore. Out of these cases, the Department recovered ₹ 2.14 crore in 33 instances (**Appendix 2.2-IV**), issued Show Cause Notices in 184 instances for ₹ 1,472.75 crore (Demand raised-DRC-01: ₹ 1,353.15 crore, Demand confirmed-DRC-07: ₹ 119.60 crore) (**Appendix 2.2-V**), issued ASMT-10 notices in 18 instances⁴⁷ for ₹ 49.78 crore (**Appendix 2.2-VI**) and 85 instances⁴⁸ involving ₹ 115.83 crore (**Appendix 2.2-VII**) were under correspondence with the taxpayers.

⁴⁶ Out of 320 instances (Recoveries made: 33 instances, SCN: 184 instances, ASMT-10: 18 instances, under correspondence with taxpayer: 85 instances), 23 instances represent a mismatch of turnover of ₹ 1,125.06 crore and 297 instances represent mismatch of tax liability/input tax credit of ₹ 515.45 crore.

⁴⁷ Out of 18 instances, one instance represents mismatch of turnover of ₹ 4.85 crore and 17 instances represent mismatch of tax liability/input tax credit of ₹ 44.93 crore.

⁴⁸ Out of 85 instances, 11 instances represent mismatch of turnover of ₹ 49.48 crore and 74 instances represent tax liability/input tax credit of ₹ 66.35 crore.

The few illustrative accepted cases are explained below.

1. Audit noticed (August 2023) in case of a taxpayer under SAS Nagar for the period 2020-21 that the taxpayer had unreconciled taxable turnover of ₹ 374.64 crore as per Table 7G of GSTR 9C.

In response, the Department replied (July 2024) that show cause notice for ₹ 374.64 crore has been issued to the taxpayer.

2. Audit noticed (August 2023) in case of a taxpayer under Ropar Circle that the taxpayer had unbilled nil revenue at the beginning of 2018-19 while unbilled revenue at the end of 2017-18 was ₹ 283.58 crore resulting in mismatch of unbilled taxable value of ₹ 283.58 crore.

In response, the Department replied (July 2024) that show cause notice for ₹ 283.58 crore has been issued to the taxpayer.

3. Audit noticed (August 2023) in case of a taxpayer under SAS Nagar Circle that the taxpayer had short declared taxable value of ₹ 38.16 crore as per Table 7G of GSTR 9C in 2019-20.

In response, the Department replied (July 2024) that show cause notice for ₹ 38.16 crore has been issued to the taxpayer.

C Data entry errors by taxpayers

The data entry errors in 22 instances constituted 3.43 *per cent* of the total 642 responses received. These data entry errors did not have any revenue implication. Most of the data entry errors relate to tax under Reverse Charge Mechanism and short payment of tax (**Appendix 2.2-I**).

An illustrative case is given below.

In case of a taxpayer under Ludhiana-V Circle, Audit communicated to the Department (August 2023) that the taxpayer had declared tax of ₹ 48.10 crore as per financial statement for the year 2019-20 whereas tax paid as per annual return was ₹ 10.34 crore leading to mismatch of ₹ 37.76 crore.

The Department clarified (July 2024) that while filing GSTR-9C, the taxpayer wrongly entered an amount of IGST tax liability of ₹ 41.95 crore instead of ₹ 4.20 crore leading to mismatch of tax payment.

D Action taken before issue of Audit queries

The Department has already taken action in 44 instances (**Appendix 2.2-II**), constituting 6.85 *per cent* of the 642 instances. Most of the action taken before issue of audit queries relates to input tax credit mismatch (GSTR-3B and GSTR-2A) and undischarged tax liability (GSTR-1 and GSTR-9).

An illustrative case is given below.

In case of a taxpayer under Fatehgarh Sahib Circle, Audit communicated to the Department (August 2023) a mismatch of ₹ 28.37 crore in 2018-19 between

input tax credit available and input tax credit availed. The input tax credit available as per GSTR-2A of the taxpayer was ₹ 2.55 crore, whereas input tax credit availed in Table 4A(5) of GSTR-3B was ₹ 30.92 crore.

The Department clarified (July 2024) that the taxable person has wrongly availed the input tax credit amounting to ₹ 28.03 crore in the return of November 2018 and the same was reversed in GSTR-3B of December 2018.

E Other valid explanations

The other valid explanations in 218 instances constituted 33.96 *per cent* of the total 642 responses received. In these cases, the Department's responses were found satisfactory for observed mismatches in undischarged tax/input tax credit/turnover. Most of the other valid explanations relate to input tax credit availed without supplier remitting tax and suppression of taxable value (**Appendix 2.2-III**).

An illustrative case is given below.

In case of a taxpayer under SAS Nagar Circle, Audit communicated to the Department (August 2023) that the taxpayer had short declared taxable value of ₹ 884.53 crore in 2020-21.

The Department clarified (July 2024) that the difference was due to tax amount shown on e-Waybills generated against delivery challans, whereas, dispatches against delivery challans are not reported in GSTR-3B returns.

2.7.2.2 Detailed audit of GST returns

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the Department is to establish and maintain an efficient tax administration mechanism to provide oversight. With finite level of resources, for an effective tax administration, to ensure compliance with law and collection of revenue, an efficient governance mechanism is essential. An IT-driven compliance model enables maintaining a non-discretionary regime of governance on scale and facilitates a targeted approach to enforce compliance.

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through pan-State data analysis, a detailed audit of GST returns was also conducted as a part of this review. A risk-based sample of 70 taxpayers was selected for this part of the review. The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of GSTR-9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags. Desk review was carried out in the office of the Taxation Commissioner, Punjab. Based on desk review results, detailed audit was conducted in field formations of the Taxation Department by requisitioning corresponding granular records of the taxpayers such as financial ledgers, invoices, etc. to

identify causative factors of the identified risks and to evaluate compliance by the taxpayers.

As brought out in the previous paragraphs, detailed audit involved a desk review of GST returns and other basic records to identify risks and red flags, which were followed up by field audit to identify the extent of non-compliance by the taxpayers and action taken by the field formations of the Taxation Department. Non-compliance by the taxpayers at various stages ultimately impacts the veracity of returns filed, utilisation of input tax credit and discharge of tax payments. The audit findings of detailed audit are, therefore, categorised under three sub-categories, which are discussed in succeeding paragraphs.

- Returns
- Utilisation of input tax credit
- Discharge of tax liability

There was a scope limitation of audit due to non-production or partial production of records by the Department. The details of non-production of records and partial production of records are summarised in following paragraphs:

Non-production of records:

Non-production of records in 62 cases constituted 88.57 *per cent* of the sample size of 70 cases. Out of these 62 cases, mismatch (including mismatch of turnover) of ₹ 3,234.63 crore in 55 cases (**Appendix 2.3**) could not be addressed. In these cases, even the basic records such as financial statements and other granular records i.e. sale and purchase invoices, details of fixed assets addition and deletion, details of other/misc. income and expenditure etc. were not produced despite repeated reminders (September to December 2023) and meeting with Director (GST), hence, identified risks could not be examined in detail.

Further, granular records were partially produced in four cases, which constituted 5.71 *per cent* of the sample size of 70 cases. Out of these four cases, mismatch (including mismatch of turnover) of ₹ 7.15 crore in two cases (**Appendix 2.4**) could not be addressed. In these cases, basic records such as financial statements and other granular records i.e. sale and purchase invoices, details of fixed assets addition and deletion, details of other/misc. income and expenditure etc. were produced. Whereas the records i.e. details of sundry creditors/trade payable for more than 6 months, related party transaction, details in respect of exempt supply, nil rated supply and non-taxable supply etc. were not produced.

Further, granular records were fully produced in four cases, which constituted 5.71 *per cent* of the sample size of 70 cases. In these four cases, mismatch (including mismatch of turnover) of ₹ 8.32 crore could be addressed. In these cases, basic records such as financial statements and other granular records i.e.

sale and purchase invoices, details of fixed assets addition and deletion, details of other/misc. income and expenditure, details of sundry creditors/trade payable for more than 6 months, related party transaction, details in respect of exempt supply, nil rated supply and non-taxable supply etc. were produced.

A Returns

The detailed audit of returns exhibited non-payment of interest on wrongly availed and utilised input tax credit, which is discussed below.

Non-payment of interest

As per proviso below Section 50(1) of the Punjab GST Act, 2017, an interest of 18 *per cent* per annum shall be paid on the portion of tax, which is paid after the due date of tax period by debiting the electronic cash ledger.

Audit observed (between September and December 2023) in 21 cases, constituting 30.00 *per cent* of the sample 70 cases, that the taxpayers had filed their returns belatedly but due interest of ₹ 0.49 crore (**Appendix 2.5**) was not paid on belatedly paid tax in cash in GST returns filed on dates later than due dates. All 21 taxpayers had belatedly filed GSTR-3B returns with tax of ₹ 41.22 crore paid in cash with delay between one and 375 days.

The Department replied (July 2024) in 19 cases, out of which the recoveries of ₹ 0.23 crore were made in nine cases, show cause notices were issued for ₹ 0.02 crore in four cases, ASMT-10 was issued for ₹ 0.12 crore in three cases and three cases involving ₹ 0.08 crore were under correspondence with the taxpayers. Reply in the remaining two cases were awaited (January 2025).

B Utilisation of Input Tax Credit

Input Tax Credit (ITC) means the Goods and Services Tax (GST) paid by a taxable person on purchase of goods and/or services that are used in the course or furtherance of business. To avoid cascading effect of taxes, credit of taxes paid on input supplies can be used to set-off for payment of taxes on outward supplies.

Mismatches in input tax credit

Audit analysed the dataset of GSTR-2A in respect of selected taxpayers along with datasets of GSTR-3B, GSTR-9 and GSTR-9C filed by the taxpayers and noticed mismatches of input tax credit among returns. Audit could not examine the mismatches in detail since relevant granular records were not produced by the Department. The details of mismatches in input tax credits exhibited by detailed audit are given in **Table 2.8**.

Table 2.8: Mismatch in input tax credit claimed by taxpayers

Sr. No.	Audit parameter	No. of cases	No. of Circles	Amount of mismatch (₹ in crore)
1.	<p>Excess input tax credit availed As per Table 6J of GSTR-9. (Appendix 2.6)</p> <p>In one case recoveries of ₹ 2,656 were made, in nine cases SCN were issued for ₹ 69.81 crore, in three cases ASMT-10 for ₹ 6.96 crore were issued, one case involving ₹ 0.03 crore was under correspondence with the taxpayer, one case involving ₹ 16.86 crore was under examination in the Circle, the Department did not accept one case involving ₹ 0.78 crore but did not provide any documentary evidence in support of its reply. In remaining two cases, the Department's responses were not received (January 2025).</p>	18	8	94.84
2.	<p>Excess input tax credit availed As per Table 8D of GSTR-9 after considering subsequent year's adjustment. (Appendix 2.7)</p> <p>In two cases recoveries of ₹ 0.13 crore were made, in 14 cases SCN were issued for ₹ 47.34 crore, in three cases ASMT-10 for ₹ 3.52 crore were issued, four cases involving ₹ 18.06 crore were under correspondence with the taxpayers, one case involving ₹ 3.69 crore was under examination. In remaining three cases, the Department's responses were not received (January 2025).</p>	27	11	88.48
3.	<p>Mismatch in availing of input tax credit or short reversal under input service distribution credit (Appendix 2.8)</p> <p>In eight cases SCN for ₹ 65.08 crore were issued, in two cases ASMT-10 for ₹ 7,928 were issued, two cases involving ₹ 39.72 crore were under correspondence with the taxpayers, the Department did not accept one case involving ₹ 6.39 crore but did not provide any documentary evidence in support of its reply. In remaining two cases, the Department's responses were not received (January 2025).</p>	15	8	118.90
4.	<p>Mismatch of input tax credit between GSTR-2A and GSTR-3B The input tax credit available as per Table 3 and 5 of GSTR-2A was compared with input tax credit availed in Table 4A(5) of GSTR-3B including input tax credit pertaining to current financial year availed in the next financial year. (Appendix 2.9)</p> <p>In two cases recoveries of ₹ 0.10 crore were made, in 17 cases SCN for ₹ 74.39 crore were issued, in three cases ASMT-10 for ₹ 4.96 crore were issued, two cases involving ₹ 18.29 crore were under correspondence with the taxpayers. In remaining nine cases, the Department's responses were not received (January 2025).</p>	33	10	142.51
5.	<p>Unreconciled input tax credit As per Table 12F and 14T of GSTR-9C (Appendix 2.10)</p> <p>In one case recoveries for ₹ 3,309 were made, in five cases SCN for ₹ 5.91 crore were issued, in three cases ASMT-10 for ₹ 79.57 crore were issued, one case involving ₹ 1,233.21 crore was under correspondence with the taxpayer, two cases involving</p>	13	6	2,431.16

Sr. No.	Audit parameter	No. of cases	No. of Circles	Amount of mismatch (₹ in crore)
	₹ 1,111.74 crore were under examination in the Circle. In remaining one case, the Department's response was not received (January 2025)			
6.	Mismatch of input tax credit Comparison of input tax credit under Table 8A of GSTR-9 with input tax credit available in GSTR-2A (Appendix 2.11)	33	7	236.65
	In 21 cases SCN for ₹ 45.47 crore were issued, in two cases ASMT-10 for ₹ 105.49 crore were issued, five cases involving ₹ 73.18 crore were under correspondence with the taxpayers, one case involving ₹ 1.44 crore was under examination in the Circle. In remaining four cases, the Department's responses were not received (January 2025).			

C Discharge of tax liability

The taxable event in the case of GST is the supply of goods and/or services. Section 9 of the Punjab GST Act, 2017 is the charging section authorising levy and collection of SGST on all intra-State supplies of goods or services or both, except on supply of alcoholic liquor for human consumption, on value determined under Section 15 of the Act *ibid* and at such rates not exceeding 20 per cent. Similar provisions exist in Central GST Act, 2017 for CGST. Section 5 of the IGST vests levy and collection of IGST on inter-State supply of goods and services with Central Government with maximum rate of 40 per cent.

Under Section 8 of the Goods and Services Tax (Compensation to States) Act, 2017, a cess is levied on all inter-state and intra-state supply of such goods or services or both which are listed in the schedule of the said Act such as tobacco products, aerated drinks, cigarettes, vehicles, etc. Section 9(4) of the Punjab GST Act, 2017 and Sections 5(3) and 5(4) of the Integrated GST Act, 2017 provide for reverse charge levy of tax on certain goods or services, wherein the recipient instead of the supplier becomes liable to pay tax.

The detailed audit exhibited mismatches in discharge of tax liabilities, non-payment of tax under reverse charge and irregular utilisation of input tax credit of SGST and CGST, which are discussed below.

(a) Mismatches relating to discharge of tax liability

Audit scrutinised GSTR-1, GSTR-3B and GSTR-9 returns filed by the taxpayers for the year 2018-19 to 2020-21 and noticed mismatches in discharge of tax liability by comparing the tax liability furnished in the returns. Audit could not examine these mismatches in detail since relevant granular records were not produced by the Department. The details of mismatches are given in **Table 2.9**.

Table 2.9: Mismatch related to discharge of tax liability

Sr. No.	Audit parameter	No. of cases	No. of Circles	Amount of mismatch (₹ in crore)
1.	<p>Short payment of tax under reverse charge</p> <p>Comparison of Table 4G with Table 6C, 6D and 6F of GSTR-9.</p> <p><i>In cases where GSTR-9 not available: Table 3.1(d) compared with Table 4(A)(2) and 4A(3) in GSTR-3B</i></p> <p>(Appendix 2.12)</p>	9	4	8.62
	<p>In six cases SCN for ₹ 16.40 crore were issued, in one case ASMT-10 for ₹ 0.05 crore were issued, one case involving ₹ 0.01 crore was under correspondence with the taxpayer. In remaining one case, the Department's response was not received (January 2025).</p>			
2.	<p>Tax liability mismatch between GSTR-1, GSTR-9 and GSTR-3B</p> <p>The tax liability based on the greater of the amounts furnished in GSTR-1 or GSTR-9 was compared with actual payment of tax in GSTR-9.</p> <p>(Appendix 2.13)</p>	28	11	41.29
	<p>In one case recovery of ₹ 0.09 crore was made, in two cases SCN for ₹ 0.60 crore were issued, in four cases ASMT-10 for ₹ 0.93 crore were issued, two cases involving ₹ 31.07 crore were under correspondence with the taxpayers, the Department did not accept two cases involving ₹ 0.72 crore but did not provide any documentary evidence in support of its reply. In remaining 17 cases, the Department's responses were not received (January 2025).</p>			
3.	<p>Short declaration of taxable value under reverse charge</p> <p>The sum of all transactions, where supplies under RCM in Table 3 of GSTR-2A were shown as 'Y', was compared with Table 3.1 (d) of GSTR-3B.</p> <p>(Appendix 2.14)</p>	9	3	5.04
	<p>In one case recovery of ₹ 9,468 was made, in three cases SCN for ₹ 0.60 crore were issued, in one case ASMT-10 for ₹ 0.19 crore were issued. In remaining four cases, the Department's responses were not received (January 2025).</p>			
4.	<p>Mismatch in tax paid, taxable and total turnover</p> <p>As per Table 5R, 7G, 9R of GSTR-9C</p> <p>(Appendix 2.15)</p>	9	3	64.02
	<p>In three cases SCN for ₹ 3.87 crore were issued, in one case ASMT-10 for ₹ 37,460 was issued, one case involving ₹ 27.10 crore was under examination in the Circle. In remaining four instances, the Department's responses were not received (January 2025).</p>			

Sr. No.	Audit parameter	No. of cases	No. of Circles	Amount of mismatch (₹ in crore)
5.	<p>Suppression of taxable turnover on unbilled revenue</p> <p>Comparison of Table 5B of GSTR-9C of a year with Table 5H of the previous year's GSTR-9C (Appendix 2.16)</p>	1	1	0.25
SCN for ₹ 0.25 crore was issued.				
6.	<p>Undischarged tax liability</p> <p>Comparison of tax paid with the higher of the turnover declared in GSTR-1 or GSTR-9 (Appendix 2.17)</p>	19	8	18.35
In 10 cases SCN for ₹ 3.44 crore were issued excluding partial amount involving ₹ 0.24 crore which was under correspondence with the taxpayers till issue of SCN, in three cases ASMT-10 for ₹ 4.92 crore were issued, the Department did not accept two cases involving ₹ 8.19 crore but did not provide any documentary evidence in support of its reply. In remaining four cases, the Department's responses were not received (January 2025).				

(b) Non-payment of tax under reverse charge

The Government of Punjab notified⁴⁹ various categories of services in June 2017 on which tax was payable by the recipients of the services.

The services brought under reverse charge included goods transport agency, renting of immovable property and legal services.

Audit noticed (December 2023) that a taxpayer under Ludhiana-1 Circle for the period 2018-19 to 2020-21 had shown expenditure of ₹ 0.05 crore⁵⁰ on freight charges and legal fees in his annual accounts but tax of ₹ 20,738 under reverse charge was not paid by the taxpayer.

On being pointed out (December 2023), no reply was furnished by the Ludhiana-I Circle (January 2025).

(c) Irregular utilisation of input tax credit of CGST and SGST towards tax payments without exhausting the input tax credit balance of IGST

Punjab Government inserted⁵¹ Section 49A in the Punjab GST Act, 2017 effective from 1 February 2019 making the provision that the input tax credit on account of Central tax, State tax or Union territory tax shall be utilised towards payment of Integrated tax, Central tax, State tax or Union territory tax,

⁴⁹ Notification No. S.O. 35/P.A.5/2017/S.9/ 2017 dated 30 June 2017. Corresponding Notification for CGST is 13/2017-Central Tax (Rate) dated 28 June 2017

⁵⁰ Legal fee: ₹ 10,000 in 2020-21 and freight charges: ₹ 5,29,181 in 2018-19, 2019-20 and 2020-21

⁵¹ Notification No S.O.34 /P.A.1/2019/S.1/2019 dated 8 April 2019. Corresponding amendment for CGST was made vide Notification No. 02/2019-Central Tax dated 29 January 2019.

as the case may be, only after the input tax credit available on account of Integrated tax has first been utilised fully towards such payment.

Audit observed (September and October 2023) that three taxpayers under Fazilka and SAS Nagar Circles utilised credit of CGST and SGST during 2019-20 and 2020-21 towards payment of tax despite balance of IGST was available for payment of tax.

On being pointed out, the Department replied (July 2024) in case of Fazilka Circle that IGST input tax credit was fully utilised at a later stage and there was no revenue loss.

The reply of the Department was not acceptable because despite no revenue loss involved, it is systemic weakness due to which GST system allowed utilisation of CGST and SGST credit towards payment of tax before exhausting IGST credit. Therefore, the Department needs to take up the matter with appropriate authority to introduce the validation checks in the GST system to prevent use of input tax credit which is not permissible as per GST law.

Reply of the Department in remaining two cases was awaited (January 2025).

D Non-furnishing of replies by the Department

Audit had issued 403 observations to the Department under detailed audit. The Department furnished replies against 355 observations (88.09 *per cent*). Considering the overall rate of conversion of inconsistencies into compliance deviations brought out under paragraph 2.7.2.2(A), and in the Table 2.8 and 2.9, the Department is required to expedite the verification of remaining 48 observations on priority. The timely submission of replies by the Department helps Audit to finalise audit observations to logical conclusions.

2.7.3 Other oversight functions

The role of Circles is to provide oversight over taxpayers' compliance with regard to filing of returns, discharging tax liability and other compliance obligations. The Circles have a broad set of functions to be exercised in this regard such as initiating action on late filers and non-filers, scrutiny of returns and assessment and cancellation of registrations.

The oversight functions relating to return filing, action on late/non-filers and scrutiny have been discussed in the previous sections of this report. This section highlights capacity building efforts of the Department.

2.7.3.1 Capacity building efforts

Capacity building is necessary for the effectiveness of officers and staff of the Department at all levels. The Department organises various training programs on GST for officers and staff to enhance their skills and upgrade their knowledge of new tax reforms and for revenue augmentation.

During 2017-18, no training was imparted by the Department and during 2018-19 to 2022-23, training to 15,129 personnel was imparted as detailed in **Table 2.10**.

Table 2.10: Details of trainings imparted

Designation	Number of personnel					
	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Dy. Commissioner	0	15	7	26	19	67
Asstt. Commissioner	35	38	49	124	91	337
State Tax Officer	0	0	605	1,052	813	2,470
Taxation Inspector	553	3,345	757	1,191	950	6,796
Other Staff	3,749	207	298	840	365	5,459
Total	4,337	3,605	1,716	3,233	2,238	15,129

Source: Departmental Data

However, Audit could not offer comments on the adequacy of the capacity building efforts of the Department because details of men-in-position with the Department sought by Audit (October 2023) were not provided to the Audit (January 2025).

2.8 Conclusion

The Subject Specific Compliance Audit (SSCA) on Department's Oversight on GST Payments and Return Filing was undertaken in the context of varying trend of return filing and continued data inconsistencies with an objective of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other Departmental oversight functions.

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for 2018-19 to 2020-21. The SSCA entailed assessing the oversight functions of State Jurisdictional formation at two levels, at the data level through PAN Punjab data queries and at the functional level with a deeper detailed audit both of the Circles and of the GST returns, which involved accessing taxpayer records. The audit sample, therefore, comprised 10 Circles, 366 taxpayers selected through PAN Punjab queries on 17 audit dimensions which translated into 654 deviations and 70 taxpayers selected on risk assessment for detailed audit of GST returns for the year 2018-19 to 2020-21.

The Department formulated Standard Operating Procedure (SOP) for scrutiny of returns in April 2022. Until then, the Department had been pursuing GST returns related identified inconsistencies only. The Department did not provide the number of scrutiny cases. Further, audit examination of scrutiny cases in these Circles brought out instances of non-payment of tax, non-payment of interest and inadmissible input tax credit.

There were considerable delays in cancellation of registrations and 42.03 *per cent* of cancelled taxpayers had not filed their GSTR-10 returns requiring them to discharge their final tax liabilities after cancellation of registrations.

Further, out of 642 instances against which the Department's responses were received, 235 instances (36.60 *per cent*) involving ₹ 1,524.67 crore turned out to be clear compliance deviations resulting in recoveries of ₹ 2.14 crore in 33 instances, issuance of show cause notices amounting to ₹ 1,472.75 crore (Demand raised: ₹ 1,353.15 crore, Demand confirmed: ₹ 119.60 crore) in 184 instances and ASMT-10 involving ₹ 49.78 crore⁵² in 18 instances. In these cases, a relatively higher rate of deficiencies was noticed in input tax credit mismatch, input tax credit availed after limitation period, undischarged tax liability, short/non-payment of interest on delayed payment of tax and non-filing of GSTR-3B. While data entry errors caused the inconsistencies in 22 instances (3.43 *per cent*), in 44 instances (6.85 *per cent*) the Department had already taken proactive action. The Department did not respond to 12 instances, which had an identified risk exposure of ₹ 51.44 crore, which include a mismatch of turnover of ₹ 8.25 crore in three instances.

Detailed audit of GST returns also highlighted non-compliance. The granular records of 62 taxpayers out of selected 70 taxpayers were not produced, which constituted a significant scope limitation. Out of these 62 cases, 55 cases represent a potential risk exposure of ₹ 3,234.63 crore towards identified mismatches in input tax credit availed, tax payments and turnover. Audit observed compliance deficiencies in 61 cases⁵³ involving 393 instances with a revenue implication of ₹ 3,250.60 crore, which includes non-payment of interest of ₹ 0.49 crore, mismatch of turnover of ₹ 68.65 crore and mismatch in input tax credit/tax liability of ₹ 3,181.46 crore under detailed audit by covering the audit of four cases fully, four cases partially and by examining the returns available on GSTN in 62 selected cases⁵⁴. Out of these, deficiencies involving ₹ 540.44 crore⁵⁵ in 210 instances were accepted by the Department including recoveries of ₹ 0.55 crore in 19 instances. The main causative factors were availing of ineligible and irregular input tax credit, and incorrect discharge of tax under reverse charge mechanism as well as forward charge mechanism.

From a systemic perspective, the Department needs to strengthen the institutional mechanism in the Circles to establish and maintain effective oversight on return filing, taxpayer compliance, tax payments, cancellation of registrations and recovery of dues from defaulters.

⁵² This amount represents a mismatch of turnover of ₹ 4.85 crore and mismatch of tax liability/input tax credit of ₹ 44.93 crore.

⁵³ Number of cases have been counted based on GSTIN irrespective of multiple instances of deviations, that may occur under different audit findings.

⁵⁴ In 62 cases, records were not produced, hence, audit was conducted to the extent of returns available on GSTN.

⁵⁵ Recoveries made: 19 instances (₹ 0.55 crore), SCN issued: 145 instances (₹ 333.18 crore), ASMT-10: 46 instances (₹ 206.71 crore)

2.9 Recommendations

- The Department may reinforce mechanism for initiation and monitoring of scrutiny of returns cases to avoid revenue leakage.
- The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on returns filing and action taken on non-filers.
- The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on timely cancellation of GST registrations on application and *suo-moto*.
- The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on filing of GSTR-10 post cancellation of registrations.
- Year-wise targets under Section 65 of Punjab GST Act, 2017 may be increased in view of additional tax demand created as a result of internal audit.
- The Department may reinforce the institutional mechanism in the Circles to establish and maintain effective oversight on DGARM reports which provides inputs for risky transactions.