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Alert: Indirect Taxation

Bhatia & Bhatia
CHARTERED ACCOUNTANTS



GST Compliance Checks for closing FY 2024-25

As the financial year 2024-25 draws to a close and we gear up for FY 2025-26, it's crucial for businesses and professionals to stay updated on the Goods and Services Tax (GST) implications that could affect the annual closure of books and future planning.

The transition between financial years is a critical period for addressing GST compliances, making strategic decisions like opting for the GST Composition Scheme, and ensuring readiness for new regulations such as e-invoicing requirements.

This guide highlights key aspects to consider for smooth GST compliance and effective financial planning for the upcoming year.

Considering the various GST implication some of the key aspects are summarized in this edition.

1. Compliances for Annual Closure of Books of Accounts

- **File LUT for zero-rated supplies for FY 2025-26:** Taxpayers are required to submit Letter of Undertaking for undertaking zero-rated supplies i.e. EXPORT of goods/services outside India or Supply to SEZ Unit/Developers without payment of IGST for every Financial Year.

The application for LUT has to be made on or before making supply. Therefore, For F.Y. 2025-26, LUT is due to be filed latest by 31st March 2025 if company intended for zero-rated supplies on or after 01.04.2025.

- **Opt-in for GST Composition Scheme for F.Y. 2025-26:** If Taxpayer wish to opt for Composition Scheme subject to the fulfilment of criteria and conditions for F.Y.2025-26, last date to file CMP-02 is 31st March 2025.

Note: In case of switch from Normal to Composition Scheme, ITC claimed on inputs lying in form of Inputs, WIP, finished goods stock as on 31.03.2025 and capital goods (on reduced percentage basis) is required to be reversed by filing ITC-03 by 30th May 2025.

- **Opt-in or out of QRMP for F.Y. 2025-26:** Quarterly Return Monthly Payment (QRMP scheme) under GST is a scheme introduced by the Government in its initiative to simplify compliance for taxpayers. In this scheme, registered persons having aggregate turnover up to Rs 5 Cr. are allowed to furnish their GST returns on a quarterly basis along with monthly payment of tax under QRMP Scheme. Last date to opt in or opt-out from the QRMP Scheme is 30th April 2025 for the financial year 2025-26.
- **Declarations to be taken from Goods Transport Agency (GTA) for opting to pay GST under Forward Charge:** As per the recent amendments, in case of GTA service, Supplier has an option to opt for payment of GST under forward charge (GST is charged on invoice) or under reverse Charge (recipient will pay the GST directly).

For the FY 2025-26, declarations to be taken from Goods Transport Agency (GTA) for opting to pay GST under Forward Charge should be obtained and kept in record to justify the reason for non-payment of GST under RCM.

- **Reset Invoice Number Series:** With the start of the new financial year 2025-26, GST taxpayers should start a new invoice series, unique for the financial year.
- **Re-calculation of Aggregate Turnover of F.Y. 2024-25 for various compliances related to F.Y. 2024-25:** For Various decision making and compliances in GST are dependent upon threshold as per Aggregate Turnover like GST registration, Composition Scheme, QRMP Scheme, E-Invoicing, Rule 86B (1% Cash Payment) etc. For F.Y. 2025-26, please make sure that recalculation is done for each of relevant compliances as per aggregate turnover in F.Y. 2024-25 wherever applicable.

- **Year-end reconciliation of Outward Supplies and Inward Supplies:**

Following reconciliation at the year end are a must:

1. Turnover as per books of accounts VS turnover as per GST returns.
 2. Physical stock vs stock as per books of accounts – to identify shortages/excess stock, if any.
 3. Closing balance of ITC as per books of accounts VS closing balance as per GST portal.
- **Yearly calculation of reversal of ITC as per Rule 42 & 43:** In case of any reversal of common Input Tax Credit on account of exempted supplies as per Rule 42 & 43, after having undertaken monthly reversal, the annual calculation is required to be done and any excess reversal or short reversal should be duly accounted for in GST returns for March 2025.

In case of delay in reporting of additional reversal, if any, Interest would apply from 1st April 2025 onward for common ITC reversals to be done in F.Y. 2024-25.

- **Reversal of ITC for unpaid vendors as per Rule 37:** As per the provision of GST Act, In case of ITC availed on Goods / services, Payment for the said invoice shall be made within period of 180 days from the date of Invoice, in case failure of making payment ITC availed previously is need to reversed on expiry of 180 days along with Interest from date of availment of ITC.

Same time, any ITC was reversed previously under this rule, but the payment of same is made during F Y 2024-25, ITC can be claimed back.

2. Other Compliance Points

- **Availment of correct Input Tax Credit for the FY 2024-25:**

1. Reconciliation the E-credit ledger with the books of accounts for FY 2024-25.
2. Check that the tax has been correctly calculated and paid under RCM in case of the Import of services, rented sitting fees paid to Directors, GTA, Security Services, Rent a cab, Advocate fees, etc.
3. In the compiled data of GSTR 2B, check the status of the date of filing of GSTR-1 and GSTR-3B of the suppliers to know whether your suppliers have filed GSTR-3B to avoid any query from the Department.
4. Revisit the natures of expenses incurred and ITC claimed thereupon. In case any blocked credit is claimed, reverse the same immediately rather than wait for the annual return.

- **Reporting of correct outward supplies for the FY 2024-25:**

1. Reconciliation of turnover/tax as reported in GSTR 1/ GSTR 3B with books of accounts for FY 2024-25
2. Review the correct HSN/ SAC code and GST rate that has been opted.
3. Reconciliation of E-way bills generated during FY 2024-25 with tax invoices reported in GSTR 1.
4. Reconciliation of e-Invoices with IRN viz. e-way bills generated viz. reported in GSTR 1.
5. Check whether the GST paid on advances received in FY 2024-25 towards the supply of services made or agreed to be made has been properly adjusted in GSTR 1 and GSTR 3B.
6. Check whether the goods sent on an approval basis have been either returned within 6 months or sold on issuance of tax invoices.

- **Job work-related compliances:**

1. In case of material sent for job work, check whether the same has been returned within the time limit prescribed (Inputs – 1 year and Capital goods – 3 years) and the same has been duly reported in ITC 04.
2. The due date for filing ITC-04 shall be as below:
3. Those with an annual aggregate turnover of more than Rs.5 crore – October 24 – March 25 due on 25th April 2025.
4. Those with an annual aggregate turnover of up to Rs.5 crore – For FY 2024-25 due on 25th April 2025.
5. Records related goods sent and returned back have been properly updated and reconciled with the stock with job worker.

3. E-invoice Registration

For all those taxpayers whose Aggregate PAN-based Turnover exceeds Rs 5 Crores during FY 2024-25 for the first time from the introduction of GST have to generate and issue an E-invoice from 01st April 2025.

4. Export of Goods/Services with payment of Tax & inward remittance there of

The exporter has the options:

- 1) Pay IGST on exports and then claim refund of the same once export is executed. Or
- 2) Export of Goods / services, under LUT (Without payment of tax), here refund of ITC involved in the goods / services can be claimed.

However, in this connection provision has been amended and as per amended provision, in case refund for export is claimed and export proceed (both for goods / services) is not received as per time limit under Foreign Exchange Management Act (FEMA) regulation (within 9 months from the date of issue of invoice for export), the person shall deposit the amount so refunded, to the extent of non – realization of sale proceeds, along with applicable interest within 30 days of expiry of the said period of FEMA.

5. Filing of GSTR 3B for inward supplier to avoid ITC reversal under rule 37A

Rule 37A of GST provides that the GST-registered buyers of goods and services must reverse the Input Tax Credit claimed before when their corresponding supplier fails to deposit such taxes in their GSTR-3B within a defined time. The due dates for suppliers as per Rule 37A are:

- > 30th September 2024 for F Y 2023-24 and
- > 30th September 2025 for F Y 2024-25.

In case supplier have not filed returns by the above due dates, the amount of input tax credit shall be reversed by the said registered person, while furnishing a return in FORM GSTR 3B on or before the 30th November 2024 (for FY 2023-24) and 30th November 2025 (for F Y 2024-25) following the end of financial year.

However, ITC of the same can be re-claimed once the corresponding tax is paid by supplier in GSTR 3B.

6. E-invoice status validation for all suppliers

In case the supplier is required to issue an E-invoice but does not do so, it will result in a claim of ITC on the basis of invalid documents and the reversal of ITC shall be demanded by the Department from the recipient of Goods / Services.

Therefore, A taxpayer (recipient) shall ensure the applicability of E-invoicing to its vendors.

The taxpayer shall follow the below steps:

Step 1: Visit the e-invoice portal.

Step 2: Go to the search tab and select "e-invoice status of taxpayer".

Step 3: Enter the GSTIN of the supplier and the captcha code. Click Go.

This status is based on the turnover reported by a GSTIN in its GSTR-3B. However, it should be noted that the enablement status on the e-invoice portal doesn't mean e-invoicing is applicable to a particular taxpayer. If a particular category of the taxpayer is exempt from e-invoicing, then the e-invoicing enablement status can be ignored.

7. 1% Cash payment conditions validation

As per Rule 86B of the CGST Rules 2017, taxable persons can use an Electronic credit ledger for making payments of Outward Tax liability up to 99% of the outward tax. and 1% is compulsorily to be paid from the Cash ledger. However, this provision shall not be applicable in case where;

- The value of Domestic Supply (excluding Exempt Supply) for a GSTIN is below Rs. 50 Lakhs for the current Month.
- If the specified persons as mentioned in the rule have paid more than Rs.1 lakh as Income Tax under Income Tax Act, 1961.
- If the registered person has received a refund of an amount greater than Rs.1 lakh in the preceding financial year on account of export under LUT or due to an inverted tax structure.
- If the registered person has discharged his output tax liability by electronic cash ledger for an amount in excess of 1% cumulatively up to the said month in the current financial year.
- If the registered person is a Government dept, PSU, Local authority, or Statutory Authority.

8. GST Amnesty Scheme 2024

To put an end to pending disputes for the initial period of July 2017 till March 2020, Finance (No. 2) Act 2024 introduced the GST Amnesty Scheme for all pending disputed u/s 73 matters for which the order is passed by the adjudicating authority or appellate authority.

The GST portal now enables taxpayers to file waiver applications through Forms GST SPL-01 and GST SPL-02. However, businesses seeking a waiver must first withdraw any appeal applications filed against demand orders. If an appeal was filed before March 21, 2023, and is still pending, the taxpayer must request its withdrawal from the appellate authority.

9. RCM on commercial rent paid to unregistered Suppliers

Recently, in GST RCM (Reverse charge mechanism), a new service was added on 08th October 2024 and w.e.f. 09th October 2024, in case of Service received by way of "Service by way of renting of any immovable property other than residential dwelling." from unregistered Supplier, GST under reverse charge shall be paid by the registered recipient.

Therefore, in case of rent is paid for the renting of any premises other than residential premises for residential use, e.g. warehouse/ godown, Yard (Open space), Offices / commercial premises, etc. and the Supplier is unregistered, then RCM shall be applicable. And since service is availed for furtherance of Business, RCM paid, ITC can be availed.

So, it is important to identify such transactions and whether RCM is paid or not. If the same is not paid, the same can be paid at the earliest and ITC of the same can be claimed on a self-invoice basis.

10. Input service distribution (ISD mechanism)

The Finance Act, 2024, has amended Section 2(61) of the CGST Act, making it mandatory for any office receiving tax invoices for input services, including those under RCM, on behalf of distinct persons (as per Section 25) to register as an Input Service Distributor (ISD).

Previously, businesses used the cross-charge mechanism as an alternative for distributing Input Tax Credit (ITC) on common services or goods procured. However, with the recent amendment, ISDs are now explicitly permitted to distribute ITC related to the common supply of service for multiple states.

This amendment, which includes references to Sections 5(3) and 5(4) of the Integrated Goods and Services Tax (IGST) Act, expands the scope of ITC distribution to cover services taxed under RCM.

This provision will take effect from April 1, 2025. Consequently, taxable persons with a presence in multiple states and procuring common services for multiple states must register as ISDs and comply with return filing requirements. Businesses falling under this category should ensure ISD registration is completed before March 31, 2025.



Input Service Distributor (ISD) Mechanism effective from: 1st April 2025

1. Introduction:

The Finance Act, 2024, has introduced a new definition of Input Service Distributor (ISD) under the Goods and Services Tax (GST) framework, effective from 1st April 2025. This revision aims to streamline the distribution of Input Tax Credit (ITC) among distinct persons and aligns ISD functions with evolving tax regulations.

2. Revised Definition:

From 1st April 2025, ISD refers to:

- An office of the supplier of goods or services that receives tax invoices towards input services.
- Includes invoices related to services under Reverse Charge Mechanism (RCM) [Section 9(3) & 9(4)].
- Receives invoices on behalf of distinct persons under Section 25.
- Liable to distribute ITC in accordance with Section 20.

3. Key Changes & Analysis:

The new definition brings significant changes that impact businesses operating under GST. The following key aspects are noteworthy:

A. Inclusion of Reverse Charge Mechanism (RCM) Services

- Under the revised definition, ISD can distribute ITC related to RCM-paid services.
- Businesses using RCM for transactions like legal services, rent payments, and freight charges must ensure proper ISD compliance.

B. Expanded Scope – Distinct Persons

- The new definition clarifies that ISD will now receive invoices on behalf of distinct persons (separate GST registrations under the same PAN).
- This broadens ISD's operational framework, making it responsible for allocating ITC across different GST-registered branches or business units.

C. ITC Distribution as per Section 20

- The method of ITC distribution may change due to modifications to Section 20.
- Businesses must revisit ITC allocation mechanisms to comply with the new ISD framework.

GUIDE

Mandatory ISD Provisions Under GST from April 2025



4. Impact on Businesses:

A. Structural & Compliance Adjustments

- Businesses must update ERP systems to accommodate changes in ITC tracking & allocation.
- Increased documentation requirements to maintain clarity on ISD-related ITC transactions.
- Need for enhanced reconciliation mechanisms to ensure correct ITC distribution under revised ISD rules.

B. Ensuring Proper RCM Credit Utilization

- RCM invoices can now be routed through ISD, reducing compliance burdens for individual branches.
- Improves credit flow management, ensuring ITC is distributed efficiently across distinct GST registrations.

C. Potential Challenges & Solutions

- Operational Complexity: Businesses with multiple branches will need to strengthen internal processes for invoice routing.
 - ✔ Solution: Implement automated tracking and validation systems to handle ISD invoicing.
- Section 20 Modifications Impact: Changes in ITC distribution mechanisms may require process modifications.
 - ✔ Solution: Businesses should stay updated with upcoming rules and adapt accordingly.

5. Key Takeaways & Action Points:

- ISD definition was expanded to cover RCM invoices, ensuring better ITC distribution.
- New focus on distinct persons under Section 25, requiring structured ITC allocation.
- Changes in Section 20 may affect ITC distribution methodology—businesses must prepare in advance.
- Review ITC processes, update ERP systems, and ensure compliance readiness before April 2025.

🔔 Businesses must proactively align their ISD structures and accounting practices with these changes to ensure seamless compliance!



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CHARTERED ACCOUNTANTS

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