

## GST COMPLIANCE RATINGS- A Double-Edged Sword

Section 138 of Model GST Law (November 2016) provides for GST compliance rating for every taxable person. GST compliance rating is a compliance evaluation based on independent verification of compliances under GST Law. The GST rating shall be updated and reviewed periodically for every taxable person and shall also be made public.

### RATING PARAMETERS

The GST compliance rating score shall be determined on the basis of parameters which are yet to be prescribed. It is expected that compliance rating scores could be based on factors such as promptness of paying taxes, timely e-filing of returns, matching of transactions, transparent reconciliations, adherence to various time limits, cooperation in dealing with tax department etc.

### USEFUL TOOL FOR VENDOR SELECTION

GST compliance rating shall be a pre-emptive tool to assess a business. As per the GST law, input credit will only be available when a supplier declares the particulars which in turn are validated by the buyer electronically. Now, if a supplier fails to furnish GSTR-1 (return for declaring details of outward taxable supplies) a buyer will not get the credit for such goods. Thus GST compliance rating becomes more relevant for buyers who want to claim their input credit in a timely manner. Such buyers will always try to purchase from a supplier whose compliance rating is excellent. Owing to inter-connectivity between different entities in a single transaction the compliance rating mechanism shall serve as a material factor in shaping business dealings. It is expected that the compliance rating process shall instill professional discipline and self-regulation and encourage healthy competition amongst taxable persons.

Also, GST compliance rating scores may be used for identifying compliant tax payers who may be entitled to better administrative treatment or response. On the other hand, a taxable person with a lower rating may be subject to certain handicaps. As per Draft Refund Rules, a taxpayer with GST Rating below 5 on a scale of 1 to 10 shall not be entitled to a provisional refund claim.

### THE FLIPSIDE

The apprehended downside of rating process could be that an external influence on the determining authority could manipulate scores in an unfair manner. This could in turn hamper healthy competition in the market. However, a transparent mechanism with clearly laid out standard parameters to designate scores shall be an adequate safeguard. Since GST shall operate on electronic platform, GSTN may be entrusted with the responsibility of determining rating scores, its periodic updation and publication in public domain.

### WAY FORWARD

The rating parameters should be devised in a manner that while incentivizing taxpayers to remain compliant they should not act as a deterrent for taxpayers with low rating scores to come up the scale. The GST compliance rating system should not create a vicious circle of poor rating leading to further downgrade of business prospects.

The rating parameters should be able to factor compliance over a sufficient time period ignoring temporary slips, especially where there is no fault of the taxpayer. The essence of the system lies in transparent implementation of the system with an underlying caution of not working in an oppressive manner for the small/medium sized businesses.

#### **Amicus Tax Team**

*The information contained in this newsletter is solely intended to provide general guidance on matters of interest. Nothing herein constitutes professional or legal advice, nor does any information herein constitute a comprehensive or complete statement of the issues discussed. It is recommended that you seek a professional advice to confirm your understanding on the issues dealt above.*

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