

E-invoicing signals a paradigm shift in tax administration

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- **Real-time reporting of transactions will make fraudulent adjustments in invoices harder.**

The immediate backlash from businesses following the rollout of the goods and services tax (GST) in 2017 had forced the government to go slow on implementing the monitoring mechanism to ensure compliance. In the past few months, however, efforts are being made to plug the loopholes in the indirect tax system through a series of small steps to enhance the tax authority's enforcement capabilities.

For instance, with the e-invoicing facility, which came into effect on 1 October, GST authorities are able to monitor every business-to-business transaction of large firms even before the goods change hands. Tax experts said the move gives tax authorities unprecedented access to data involving the finer details of transactions between firms.

"Reporting of transactions by businesses at the aggregate level in the pre-GST era has evolved first into invoice-level reporting once in a month under GST and, now, with e-invoicing, to real-time reporting. This is a quantum leap in automated data gathering, which will aid efforts to improve the tax-to-GDP ratio," said Abhishek Jain, tax partner, EY.

E-invoicing will transmit all the details of a transaction and parties involved, including addresses, to a designated portal to generate a reference number and quick response (QR) code. Businesses have to compulsorily print the QR code on the invoices. The information is also used for auto-population of certain tax return forms. In the first phase, e-invoicing is compulsory for firms with sales of more than ₹500 crore.

E-invoicing is a transformative measure which, when extended across taxpayers, would enable precise determination of GST liabilities of all taxpayers, said M.S. Mani, partner at Deloitte India. "This has the potential to significantly improve GST collections," he said.

Real-time reporting of transactions will make fraudulent adjustments in invoices harder. Besides, information sharing between GST and I-T authorities in real time makes the system robust. Considering that bogus transactions for money-laundering through shell firms was a big challenge, this is a good step.