Curbing GST evasion: E-invoicing has a long way to go, say experts

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Almost four years ago Prime Minister Narendra Modi had said the "kacha bill" (fake bills) and "pakka bill" (genuine bills) system in our country had helped mobilise black money. He had pinned hopes on goods and services tax (GST), in the works then, to help put an end to this.

He had said this during a debate on the Constitution (122nd Amendment) Bill on GST in Parliament on December 9, 2016.

Seven months later, GST was born. And now, over three years have gone since the introduction of the tax, and yet a number of shops do not issue invoices to consumers on the pretext that such a move will raise prices after adding GST.

Meanwhile, the government introduced e-invoicing this October for business-to-business (B2B) transactions of companies having a turnover of at least Rs.500 crore a year. The Centre will extend it to companies with at least a Rs.100-crore turnover in January and for all companies in April next year for B2B transactions.

For business-to-consumer (B2C) transactions, e-invoicing will be made mandatory for companies with an annual turnover of at least Rs.500 crore, effective this December.

Chart

Under B2B e-invoicing, specified firms have to raise e-invoices through a unique invoice reference portal and generate the IRN (invoice reference number). If they don't, they will not be able to move goods for B2B transactions. For B2C transactions, companies have to fix the QR code, which is to be generated by them.

But will e-invoicing stop the practice of not issuing bills by shops, and fraudulent bills or invoices?

An industry player said the answer to this question depended on the nature of the industry. For instance, if it comes to medicines and some fast-moving consumer goods (FMCG), retailers or chemists buy from super-stockists, which, in turn, purchase them from distributors appointed by the companies concerned. Some distributors have an annual turnover of over Rs.500 crore, but most others are between Rs.100 crore and Rs.500 crore. They will be tracked when e-invoicing is expanded from January 1 next year. From there, authorities will know which super-stockists have received how much from distributors. Many super-stockists in large cities have more than Rs.100 crore of annual turnover. From super-stockists, the inventories will be tracked down to the level of retailers. Even without B2C invoicing, retailers can be checked on whether they are giving receipts or not.

Super-stockists with less than an Rs.100-crore turnover will be tracked down April onwards, he said. It will not take more than three months beyond April to put the system in place to track down stocks at retailer level, he added.

However, in many places super-stockists sell products to stockists. It is here that problems arise, because the nature of a stockist is that he will vanish after buying the product. He will never keep records of whom he has supplied to. He will jot things down somewhere and never give receipts. That is why you wonder how many retailers give products at below maximum retail price (MRP). Some suspect these are fake products. But most of the time, it is through tax evasion that retailers sell them below MRP. Stockists could also be tracked down if authorities ask super-stockists where the balance of the products has gone after selling to retailers. But it will be very difficult to pin it down on stockists, whose business is mostly done by local politicians' cronies.

Harpreet Singh, partner at KPMG, said companies that came under e-invoicing did not give fraudulent invoices. Even after e-invoices are made compulsory for companies with at least a Rs.100-crore of annual turnover from January and for all companies from April, it would take a few years more to detect shops not issuing bills or issuing fake bills, he said.

On whether e-invoicing for B2C transactions from December for companies with a Rs.500-crore turnover or more will be able to plug the loopholes, the industry player Business Standard spoke to said the mechanism was for facilitating digital payments rather than detecting fake bills.

He said loopholes could be detected at shop levels only when buyers from the companies raising e-invoices were located. "This will take time and it is not possible in a couple of years," he said.

M S Mani, partner at Deloitte India, said once e-invoicing started for all in April, it would provide extensive invoice-level information to the tax authorities in real time, making it easier to track evasion and the misuse of input tax credit.

Abhishek Jain, partner at EY India, said unless B2C e-invoicing was made applicable to all, it would be difficult to pin things down at small retail level.